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# Nation's Business

the business advocate magazine

APRIL 1979

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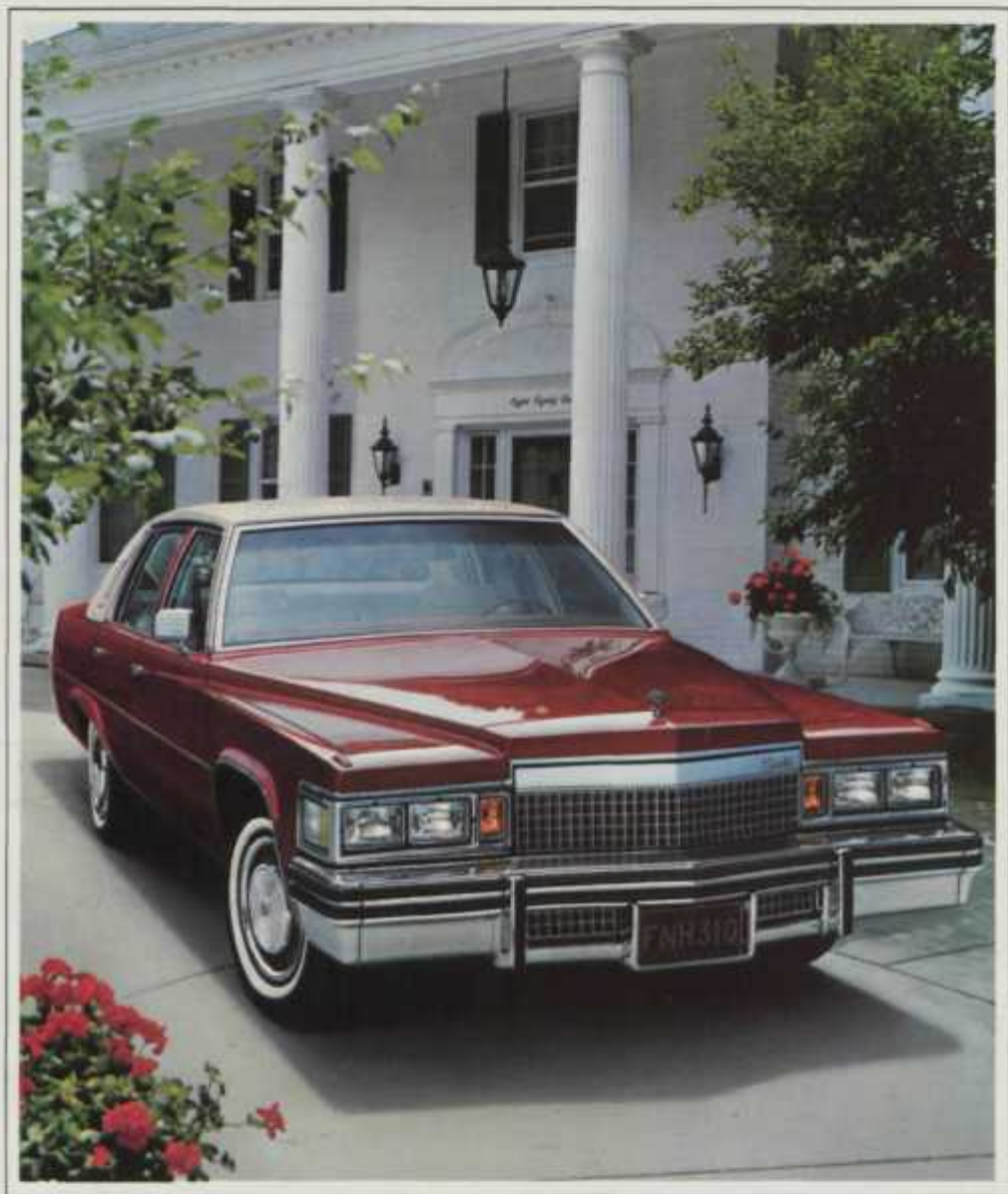


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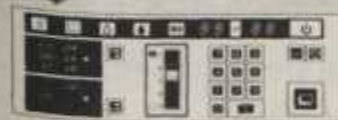


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**NP 60** - The compact copier of the micronics age. Speed, reliability, affordability.

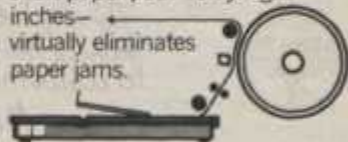


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# Nation's Business

VOLUME 67 • NUMBER 4 • APRIL 1979

Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

## -7 The Nation's Business Washington Letter

JAMES J. KILPATRICK

## -17 In Eritas, Veritas

## 20 Now We Have Peace; Let's Talk Business

NATION'S BUSINESS OUTLOOK

## -22 Administration Planning 1980 Wage Guidelines

## 30 Labor's Changing Profile

## 38 Sen. Kennedy: The Artful Activist

## -48 Small Business Procures a PASSport to Profits

## -50 Business and the Arts Make a Perfect Match

## -58 Disco-Dancing—to the Tune of Billions

LESSONS OF LEADERSHIP

## 64 The Charter Saga in Which One Branch Leads to Another

## -76 Venture Capital Prospects: Tight, but Tolerable

ECONOMIC VIEWPOINT

## -84 Capital Shortage May Shortchange Development

-EBA Industry Update

BUSINESS CONFIDENCE SURVEY

## -87 Wanted: Tax Cuts, Not Wage Insurance

## -90 Workers Expect the Worst But Are Optimistic Anyway

BUSINESS LIFE-STYLE

## -94 Gardening: Beauteous Blossoms and Abundant Bounty

PEOPLE IN BUSINESS

## 103 Making Friends With Demon Computers

INDUSTRY SPECIAL REPORT

## 105 Steel: The Girders of Industry Need Reinforcing

EDITORIAL

## -112 Beware of Congress Bearing Illinois Brick

### Departments

-7 Washington Letter

10 Letters to the Editor

-15 Sound Off to the Editor

17 James J. Kilpatrick

22 Outlook - *M. Paul*

92 Sound Off Response

94 Business Life-Style

103 People in Business

112 Editorial

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# The Nation's Business WASHINGTON LETTER

► **YOU CAN EXPECT** Congress to keep the fiscal 1980 federal budget deficit at or near President Carter's recommendation of \$29 billion in the first concurrent budget resolution.

That's if there are no unforeseen crises that would alter spending plans.

After talks with lawmakers and insiders and attendance at budget hearings, that's our reading.

Business has called for deficit of \$24 billion as part of its anti-inflation plan, but possibility of deficit going that low is highly unlikely.

Why? Politicians are not cutting enough from spending programs.

► **BATTLE OF THE BUDGET** approaches climax this month as it heads toward May 15 deadline for first concurrent resolution.

It sets target under which Congress will operate in deciding fiscal 1980 budget. It's not binding, but gives idea of where Congress is heading.

Second resolution deadline is end of fiscal year--Sept. 30. It is binding.

Some business economists estimate--at this early stage--that second resolution will show deficit of \$30 billion plus.

► **PLETHORA OF REQUESTS** for increased federal funding now pouring into Capitol Hill is mind-boggling.

Many would be hard to turn down.

Here's one example:

► **TEN MILLION CHILDREN** in United States under age 18 are poor--poorest group in America.

Nearly two children in five are not fully immunized against one or more major childhood diseases.

Ten million have no known regular source of primary medical care. More

than one million, over age six and under 17, are not enrolled in any school.

These statistics--presented to House Budget Committee--are from Marian Wright Edelman, director of Washington-based Children's Defense Fund.

She recommended a program to help combat these problems--but part of it requires restoration of funds slated to be cut from budget. This would increase spending or require cuts somewhere else.

Congressmen making these decisions are faced with tough choices.

► **BY TURN OF CENTURY**, government at all levels will take about 45 percent of America's gross national product and employ one quarter of its work force if recent trends continue.

That's from Allan H. Meltzer and Scott F. Richard, economics professors at Carnegie-Mellon University in Pittsburgh.

► **WATCH FOR ACTION** soon on far-reaching, controversial Toxic Substances Control Act.

Environmental Protection Agency expected to issue inventory of chemicals in next two to three months. This kicks off round of guidelines for firms involved with chemicals.

National Chamber testified on act before EPA last month, calling, in part, for more openness in EPA talks and greater consideration of costs the act will impose on firms.

We'll tell you more as issue develops.

► **LITTLE KNOWN** federal program that provides funds to laid-off workers is growing.

The program--under Trade Adjustment Assistance Act--provides help to workers displaced by foreign imports. Firms



hurt by imports also can get technical, financial help.

Program began in April, 1975. Since then, more than \$617 million has been paid to 400,000-plus workers.

Last year alone, 156,000 workers drew \$275 million. That's up from 117,000 workers who drew \$149 million in 1977.

Under the act, qualified workers can draw both trade adjustment assistance and unemployment insurance to combined maximum of national manufacturing wage average. That's about \$227 a week.

Funds can be drawn for as long as 78 weeks, but base period is 52. Labor, Commerce departments run the program.

► **VOICE OF AMERICA**, one of overseas propaganda arms of United States, adds another language to its broadcasts.

It's Farsi, primary language of Iran.

The Voice, as it's called internally, hasn't broadcast in Farsi to Iran since 1960.

The only Voice broadcasts people of Iran could hear--until now--were in English and French.

Some insiders question why Voice wasn't broadcasting in Farsi earlier.

► **IS VOICE GOOD PUBLIC RELATIONS TOOL?**

Some experts believe so, especially Voice of America news broadcasts, which are highly regarded in many foreign lands as authoritative.

With inclusion of Farsi, Voice now broadcasts in 38 languages.

People's Republic of China broadcasts in 44.

U. S. S. R., in 82.

Insiders tell us they would like to increase number of languages, but money is the problem.

Where do funds come from? Congress. But with its budget-cutting mood, likelihood of any funding hike is remote.

Voice of America is part of U. S. International Communication Agency.

► **BUSINESS WINS CASE** before Supreme Court involving issue of union access to business employee records.

Case involves Detroit Edison Co. refusal to permit union local access to tests, papers, and scores used for

employee evaluation. Case dates to 1971. High Court overturned National Labor Relations Board finding.

Court said union's assertion that it needs information to process grievances does not automatically oblige employer to supply all information in manner requested.

National Chamber Litigation Center had filed brief as friend of court defending utility's position.

Court ruled in case last month.

► **IT'S YOUR BUSINESS**--That's name of National Chamber's new half-hour television talk show on contemporary issues.

Pilot show subject: Do public employees have right to strike?

It pits Sen. Orrin G. Hatch (R.-Utah) and Dr. Richard L. Leshner, National Chamber president, against Rep. Frank Thompson, Jr. (D.-N. J.), and John Ryer, president of 1.8 million member National Education Association.

It's Your Business is set for weekly production in September. It will be syndicated. For more information, contact Broadcast Center at Chamber.

ITEM--Improving Local Government Fiscal Management: Action Guidelines for Business Executives. That's title of new National Chamber book. It tells how business leaders can help local officials deal with fiscal problems and gives examples.

Interested? Contact Chamber's Community and Regional Development Section.

► **BUSINESS USED AS SCAPEGOAT** in latest shoring-up efforts of administration's sagging anti-inflation program.

This time administration attacks corporate profits, which posted 15.8 percent rise in 1978 over 1977.

Profits are up, but that's to be expected--it's a business recovery period. But they are up because of higher volume.

In actuality, profits per unit are down from a year ago. Profits have grown very slowly in the past few years. In fact, last year was first time adjusted corporate rate of return exceeded government bond returns since 1974.



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## LETTERS TO THE EDITOR

### A Friend of Small Business

Thank you very much for a positive report on small business development centers. ["Free Advice Pays Off for Small Businesses," Feb.]

I think you did a particularly good job of expressing the uniqueness of each center and emphasizing the strength involved in that differentiation. The real test of the proposed center program will be its ability to serve local needs in an effective and efficient manner.

Again, thank you for your support of small business and the Small Business Administration, in particular. Small business needs more friends like NATION'S BUSINESS.

PAT L. BURR  
Assistant Administrator  
for Management Assistance  
U. S. Small Business Administration  
Washington, D. C.

### Keep the SBA

I strongly disagree with the assessment of Sen. William Proxmire (D-Wis.) that the Small Business Administration has helped only a minute number of small businesses. [Outlook: "Bill to Abolish SBA Will Be Introduced," Jan.]

The SBA has loaned billions and has a good collection record.

Most of the loans are paid back on time. Maybe some of the \$26 million still owing is not all due yet. Is this possible?

In any case, to destroy the whole agency because of a few bad apples is going too far.

THOMAS C. BARGERON  
President  
Charles F. Wheelock & Associates, Inc.  
Birmingham, Ala.

### A secret no more

The West Coast states have been exporting logs to Japan for nearly 20 years at the annual rate of three billion board feet. This is the best-kept secret of the century. ["Lumber and Paper: A Sizable Stake in the Economy," Jan.]

When the lumber companies plead with the forest service to release more

timber, what do they want to do with it? Export it, of course. Hardly a week goes by but that some mill shuts down for lack of logs. The lumber companies' boast that they grow trees faster than they cut them down is just not true.

PAUL LARSEN  
Everett, Wash.

### Back to back

May I commend your staff on the highly informative and well-written article on trading with China. ["China: Open for Business?" Feb.]

I could not help but notice the photograph on page 31 of Vice President Walter Mondale and Chai Tse-Min. Do my eyes deceive me or is the Vice President of the United States standing in front of an American flag which is improperly displayed?

WILLIAM L. HARRIS  
Charlotte, N. C.



EDITOR'S NOTE: Your eyes are correct, Mr. Harris. The White House explains that the Chinese arranged the flag display and by the time the first Americans arrived at the party and noticed the error, there were already so many guests present that the most diplomatic thing seemed to be to overlook the mistake of their hosts.

### A job for OSHA?

My first thought upon seeing the picture on page 28 of the February issue—Chinese workers preparing a field for planting—was:

Where are the OSHA-approved chemical toilets, Section 1910.141. If the Chinese were required to have one per nine employees, five per 100, and

NATION'S BUSINESS • APRIL 1979



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one for each additional 30, segregated by sex and located within 200 feet of the job site, where would they plant anything? **GLENN ELLIOTT**  
*Indiana Truck & Trailer, Inc.*  
*Evansville, Ind.*

## A fair price

The Washington Letter in January stated that the farm protest would not be as strong this year as last, due to the fact that farm prices are up from 64 percent parity last year to 72 percent this year. But many commodities are still below the cost of production. What we need, and must have, in order to stay in business is at least 90 percent parity.

True, you didn't see as many of us demonstrating this year as last, but our situation has not improved that much. Most of us spent beyond our means last year trying to present our problem to urban America. We haven't given up, but have been forced to take other directions that will be slower, but much less expensive.

What we want and must have, just as anyone else who stays in business, is a fair price for our product.

**BENNY COWART**  
*Cowart Farms*  
*Monassas, Ga.*

## Part-time phenomenon

The article on part-time work did a fine job of explaining the role this work option plays in today's marketplace. ["In Permanent Part-Time Work, You Can't Beat the Hours," Jan.] Another growing phenomenon that also eases unemployment and benefits employers is temporary help.

In the past year, the nation's 2,000 temporary help offices provided employment at various times for upwards of two million workers in the clerical, industrial, medical, and technical fields. The estimated 500,000 customers used about 100,000 temporary workers daily. Labor Department statistics estimate the industry will be one of the fastest growing in the 1980s, helping to make unemployment a temporary problem.

**WILLIAM F. DEAL**  
*Executive Vice President*  
*National Association*  
*of Temporary Services, Inc.*  
*Washington, D. C.*

## Profitable self-interest

Today, it seems popular to consider profit disdainful. Unless you can purchase something with a discount or at



wholesale, you have been ripped off. One of the reasons for this feeling is a lack of understanding of the free enterprise system and the absolute necessity for profit.

The objective of free enterprise is to make a profit—all the profit that can be made. The penalty for not making a profit is failure and loss of investment. Competition tends to keep profit down. However, profit is what allows enterprise to become more efficient and grow.

Profit is what provides the incentive to overcome the risks involved. The hope and realization of profit provide the fuel for enterprise, and enterprise is what creates the jobs, services, and commodities that enrich our lives.

Anything which threatens the free enterprise system and the profit motive threatens our standard of living, and more important, our personal freedom.

GEORGE B. JACKSON, JR.  
Jack's TV Service  
Orlando, Fla.

#### Unions want too much

The article, "What Labor Wants From the 96th Congress [Feb.]," makes me wonder that the people elected to run this country don't seem to care about unions taking over.

Unions were needed in the beginning and still are, but not the way they have been operating since the end of World War II. There has been no let-up in demands for wage increases, insurance, health aid, and retirement benefits.

Unions are taking over government employees and telling Congress what to pay them.

Meanwhile, the people of the country are paying taxes to provide compensation and food stamps to union members on strike. To me, it is unconstitutional that the country should take care of union members who have chosen to leave their jobs to strike.

It is about time that Congress took a good look at what unions have done and are doing to this country.

LOIS J. KREIZWALD  
Kreizwald Plating Co.  
Salem, Ohio

#### Libertarian approach

Conservatives are always railing against government intervention in business through taxes and regulation. However, conservatives also advocate that there should be no environmental controls, or at best, voluntary controls. How does the conservative reconcile

his view of the sanctity of ownership of self and private property with the idea of pollution? Is not a person's body aggressed against when the air he breathes or the water he drinks is contaminated by foreign substances?

If conservatives were truly dedicated to the free will of the individual, the only possible position is that of the libertarians. In a libertarian society, every individual would be free to engage in any activity unhampered by a ruling elite, as long as he did not aggress against another person or his private property. In this case, polluters would

be prosecuted as trespassers, and there would be, consequently, total pollution control, voluntarily. In this way, the people who choose to use a certain product would pay the cost of pollution. As it is now, the cost is forced on everyone who pays taxes for the gigantic expenditures of the Environmental Protection Agency.

If conservatives are truly disciples of the principle of individual liberty, then they must support that principle even when it is not to their economic advantage.

STEVE DUSTERWALD  
Las Vegas, Nev.



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## SOUND OFF TO THE EDITOR

## A Constitutional Convention to Limit Spending?

**T**HERE IS a growing clamor around the nation for a constitutional convention, an event that hasn't happened in 192 years. The first one convened to repair the ineffectual Articles of Confederation and produced the Constitution we have today. Now a lot of state legislatures want another convention to draft an amendment that would limit government spending and balance the budget.

Opponents of another convention argue that the system of government produced by the first convention is adequate today to handle any situation and that we should leave well enough alone.

Impetus for another convention comes from groups around the nation who believe that the 96th Congress, despite campaign promises to cut spending and balance the budget, won't produce.

Under Article Five of the Constitution, the legislatures of 29 states have already voted to have Congress call a

convention to propose an amendment to balance the federal budget. The five additional states needed to force Congress to convene a convention could well be in the fold by midsummer, say proponents.

But is a convention needed? Already about 70 bills have been introduced in Congress that would put the budget back in balance in one way or another. The cosponsors are legion. Many of the bills would balance the budget every year, while others have caveats that would allow overruns in hard times or during national emergencies. Congress, of course, can pass an amendment, which the states could ratify.

The major concern of the opponents of a constitutional convention is that the group would not restrict itself solely to an amendment on balancing the budget. They see a free-for-all where delegates would end up passing amendments on school busing, abortion, and a variety of other subjects.

Proponents argue that this wouldn't

happen, agreeing with Attorney General Griffin Bell that the convention could be restricted to just that area. But a number of constitutional scholars and lawmakers have a different interpretation.

There are a lot of knotty questions that must be answered if a convention is called, such as how would the states be represented? Would delegates be allocated on a representative basis or two to each state as in the Senate?

Opponents see nothing but a nightmare if a convention is called. Proponents see it as a manifestation of the taxpayers' revolt and an example of democracy in action. Opponents say our present system works well and that Congress can express the will of the people. Proponents aren't convinced and believe the convention is a way of being sure that the people are heard.

What do you think? Should we have a constitutional convention to propose an amendment to limit spending? ☐

PLEASE CLIP THIS FORM FOR YOUR REPLY

Wilbur Martin, Editor  
Nation's Business  
1815 H Street N. W.  
Washington, D. C. 20062

A constitutional convention to limit spending?

☐ Yes ☐ No

Comments: \_\_\_\_\_

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
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## IN ERITAS, VERITAS

**T**HE STATEMENT issued last week by the Philadelphia Flyers, asserting their intention to forswear violence on the ice forever, comes as an incredible development in bigtime hockey. "We are sincerely sorry for the bloodshed we have caused," said star forward "Mean Jim" McGoon. "I for one promise never to lift my stick in anger again."

Such a statement is positively beyond belief. Any such shift in the Flyers' game plan would be literally incredible, and, of course, there has been no such change and no such apology. But the bogus paragraph gets me into a piece I've been meaning to write for some time. Tempting is the allure of the hoax! Risky are the uses of satire! Vast is the gullibility of the trusting reader!

The devices of satire go back at least to Aristophanes and Lucian in Greece. Juvenal perfected the art in Rome. William Langland—if indeed there was a William Langland—satirized the clergy in the 14th century in *The Vision of William Concerning Piers Plowman*. Addison, Swift, Steele, Pope, and Shaw rank among the British masters. The names of Rabelais, Voltaire, and Molière spring to mind. At one time or another, just about every writer has succumbed to the temptation to use his pen like a lance, pricking the bubble of pomposity.

**T**HE RELATED ART FORM known as the hoax doubtless has a history as long and as respected as the history of satire, but if a definitive compendium of great hoaxes has been compiled, it has not come my way. The hoax perpetrated upon Malvolio in *Twelfth Night* is perhaps the most familiar example from Shakespeare, but a dozen others could be recalled. The Oxford English Dictionary hazards a doubtful guess that "hoax" may have emerged linguistically from "hocus" late in the 18th century. By the middle of the 19th century both the word and the contrivance were well known in England and in the United States alike. Such merry practitioners as Mark Twain and Artemus Ward found the opportunities irresistible.

In our own time, H. L. Mencken probably ranks as marshal of the masquers' parade. More than 60 years have passed since he published his memorable essay, "A Neglected Anniversary," marking the date when the first American bathtub was installed in a residence in Cincinnati. According to Mr. Mencken, an enterprising merchant named Adam Thompson, having acquired during visits to England the habit of bathing, determined to install a working bathtub in his mansion. Mr. Thompson was an inventive fellow; he later devised the machine that is still used for bagging hams and bacon. He set up a pump to lift water from a garden well

to a cypress tank in a garret of the house. He then contrived a pipe that ran down the great chimney of the kitchen "and was coiled inside it like a giant spring." Meanwhile, a cabinetmaker fashioned a tub of Nicaraguan mahogany nearly seven feet long and fully four feet wide. On Dec. 20, 1842, Mr. Thompson took two baths in this magnificent contraption. When news of the event leaked out, controversy swept the nation.

"Boston in 1845 made bathing unlawful except upon medical advice, but the ordinance was never enforced, and in 1862 it was repealed," according to Mr. Mencken's deadpan history which continued for several thousand words—a model of popular scholarship. By his own account, his article was a "tissue of absurdities, a piece of spoofing to relieve



the strain of war days." Mr. Mencken liked the piece, but soon his satisfaction had turned to consternation.

**H**IS IDLE JOCOSITIES had been taken with complete seriousness. "But the worst was to come. Pretty soon I began to encounter my preposterous 'facts' in the writings of other men. They began to be used by chiropractors and other such quacks as evidence of the stupidity of medical men. They began to be cited by medical men as proof of the progress of public hygiene. They got into learned journals. They were alluded to on the floor of Congress. . . . Finally, I began to find them in standard works of reference. Today, I believe, they are accepted as gospel everywhere on earth. To question them becomes as hazardous as to question the Norman Invasion."

Mr. Mencken died in 1950. If the Sage of Baltimore were still kicking his heels and snickering



today, he would be cackling with delight at the hoax pulled off a year ago by one of his own latter-day evangelists. Readers of *The Nation* were delighted to learn in April of last year that Mr. Mencken himself, with astounding prescience, had long ago foreseen the time when the country would have a President from the Deep South.

"The President's brother, a prime specimen of *Boobus Collumnus Rubericus*, will gather his brutish companions on the porch of the White House to swill beer from the bottle and snigger over whispered barnyard jokes about the darkies. The President's cousin, LaVerne, will travel the hallelujah circuit as one of Mrs. McPherson's soldiers in Christ, praying for the conversion of some Northern Sodom's most satanic pornographer as she waves his work, well thumbed, for the yokels to gasp at. The President's daughter will record these events with her box camera. The incumbent himself, cleansed of his bumpkin ways by some of Henry Grady's New York hucksters, will have a charm comparable to that of the leading undertaker of Dothan, Ala."

**M**AGNIFICENT! This was pure Mencken, vintage Mencken; it was Mencken redivivus. Newspapers and magazines throughout the country picked up the piece from *The Nation*, most often without credit, and everywhere readers marveled at HLM's perception 50 years before the fact. The piece was, of course, a splendid hoax, the brilliant contrivance of Calvin Trillin, a contributing essayist to *The Nation* and to other magazines with equal reputations for truth and sobriety.

With Mr. Mencken gone to glory, his mantle has descended upon Norman Cousins, for many years editor of *Saturday Review*. It was some time in the spring of 1971 that readers of the magazine noticed a letter to the editor from K. Jason Sitewell, urging that opposition be mobilized against a bill introduced in the House (H. R. 6142) by Congressman A. F. Day and 43 colleagues. The ostensible purpose of the bill was to prevent private ownership of parks of more than 50 acres or public ownership of parks of more than 150 acres used by fewer than 150 persons a day. The real purpose, wrote Mr. Sitewell, was obviously to abolish golf.

Horrors! Letters of outrage and indignation poured into congressional mailbags. Editors thundered at the impudence of the pending legislation. It was darkly supposed that the congressman was a frustrated golfer who once had seven-putted from six feet. Congressman Day himself remained remarkably mute in the presence of the storm. From that A. F. Day to this, he has yet to be heard from.

**M**R. COUSINS, having successfully fabricated the bill to abolish golf, thereafter cast restraint to the winds. Readers of *Saturday Review* classified ads were fascinated by such offers as one to sell 16,000 dozen Chinese fortune cookies that inadvertently had been manufactured with air-raid warning instructions instead of fortunes tucked inside. Only a few weeks ago an ad appeared from the Everight Soap Company: "We regret mislabeling errors that have resulted in our laundry soap

flakes being packaged in boxes carrying shredded wheat labels. This warning does not apply to North Dakota and Montana, where old supply is still adequate. Refunds cheerfully made."

I confess that I myself have too many times trod the primrose path. Some years ago I unburdened myself of a fact-filled essay on "The Linguistic Contributions of Tiddlywinks to Contemporary American Speech." Here I credited the game with such phrases as "quick as a wink," "beyond the pale," and "in his cups." The essay was so widely reprinted that years later the editor of an encyclopedia of games asked reprint permission.

In the Yuletide season of 1973, seized by a different inspiration, I broke the story of President Gerald Ford's ill-fated effort to stage a White House pageant based upon the *Twelve Days of Christmas*. The plan broke down when a dozen federal agencies failed to cooperate on an impact statement. The Fish and Wildlife Service, for example, refused to provide 12 live partridges unless Agriculture provided suitable pens. The National Arboretum complained that 12 pear trees could not possibly be transplanted to the White House lawn in December. It was a bureaucratic fiasco. The administrator of the abortive pageant, I reported, was one Carlton Foops. The records and correspondence had been deposited with the Eritas Memorial Library. Surely, I thought, it would be at once observed that Foops and Eritas, spelled backward, were . . . But, no. The piece was solemnly cited on the floor of Congress as one more example of bureaucracy gone berserk.

**M**OST HOAXES cause no more harm than a popped balloon. Sometimes the contriver winds up like Hamlet's "enginer, hoist with his own petar." This was the case with William F. Buckley, Jr., whose *National Review* appeared on July 27, 1971, bearing explosive revelations following publication of the Pentagon Papers in *The New York Times* and *The Washington Post*. Mr. Buckley offered "The Secret Papers They Didn't Publish—Top Secret Memoranda 1962-65." In brilliant detail, these State and Defense Department papers exposed what such eminent personages as Dean Rusk and Robert McNamara had said of the war in Vietnam in confidential records.

Mr. Buckley and his merry men had confidently expected that their hoax would be penetrated at once. After all, a phone call to Mr. Rusk or Mr. McNamara would have produced an immediate denial. But so cleverly had the bogus memoranda been composed that "in at least five identified cases, the individual refused to disavow the paper." Mr. Buckley's subsequent explanation has left his taken-in brothers at *The New York Times* still miffed.

It has been quite some time since I myself yielded to temptation, but I have been absorbed in investigating a secret codicil to the will of the late Nelson Rockefeller by which two thirds of his estate is left to the Flat Earth Society. The papers appear to be genuine. The society has engaged distinguished counsel to defend its claim, and the story should be breaking soon. □



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President Jimmy Carter and National Chamber President Richard L. Lesher lead the applause for President Mohamed Anwar El-Sadat of Egypt, who called on American business leaders to help develop his country economically. He spoke at a meeting in the Chamber headquarters the night after signing a peace treaty with Israel.



"You will have no red tape," the president of Egypt promises U. S. business people who want to do business in his country, only the promise of a great opportunity.



Prime Minister Begin with chairman of Israel-U. S. Business Council, Augustine R. Marusi (right), chairman and chief executive officer of Borden, Inc.



President Sadat is welcomed to the National Chamber headquarters building directly across from the White House by Frank W. Considine, president and chief executive officer of National Can Corp. and chairman of the Egypt-U. S. Business Council, and Dr. Lesher.



# Now We Have Peace; Let's Talk Business

**C**OME and be my partner," President Mohamed Anwar El-Sadat of Egypt urged American business people in an appeal to help his country economically develop the "prosperity it must have."

Prime Minister Menachem Begin of Israel reflected the same sentiment in asking for economic development cooperation of U. S. industry.

Both leaders used forums of the Chamber of Commerce of the United States to speak to large audiences of corporate leaders representing all phases of business and industry. The meetings were held in the immediate aftermath of the signing of a historic peace treaty between the two countries on March 26.

Dr. Richard L. Leshner, president of the National Chamber, welcomed President Sadat to the Chamber's headquarters building directly across from the White House.

And he congratulated President Jimmy Carter, who introduced President Sadat to the business audience, for his role in the treaty-making events, saying he had achieved "a landmark in diplomacy."

"Egypt can now concentrate its energy and resources on economic development," in which business can play a key role.

Dr. Leshner noted that the dinner gathering at the Chamber headquarters at which President Sadat spoke was under the auspices of the Egypt-U. S. Business Council, a group administered by the National Chamber, but which is autonomous in matters of policy. And that the luncheon meeting in New York City was held by the Israel-U. S. Business Council, a similar group administered by the Chamber.

Setting up these councils, said Dr. Leshner, demonstrated the National Chamber's belief that "American business can contribute to improving international economic relations."



Top corporate business leaders met in the Hall of Flags at the National Chamber headquarters in Washington to hear President Carter and President Sadat of Egypt.

President Sadat asked American business people to look at Egypt economically as another American West.

"We have land, water, resources. Come and be my partner. We shouldn't lose any time. Am I asking a lot of you?"

The Egyptian president said there was great opportunity for American business to participate in the many areas of need in his country, including housing construction and the development of roads, ports, communications, and especially agriculture.

"I promise you there will be no red tape," President Sadat pledged.

He was accompanied to the meeting by his prime minister, Moustafa Khalil, and several other cabinet members.

Prime Minister Begin said his country offered a wonderful combination of inventive brains and productive hands.

"Free enterprise is the philosophy of our government," he said. "Free enterprise is the only system in the world

that can develop a country and bring prosperity."

He said American businesses that invested in Israel would find their efforts rewarded with "prosperity and profits." He pledged that any bureaucratic obstacles would be removed.

The Israeli prime minister also called for investment in Egypt. This, he said, would show other Middle East countries that "peace brings prosperity."

In both meetings, the leaders of the two countries answered questions concerning economic needs posed by the business people.

Presiding at the Washington meeting was Frank W. Considine, president and chief executive officer of the National Can Corp. and chairman of the Egypt-U. S. Business Council. In New York City, Augustine R. Marusi, chairman and chief executive officer of Borden, Inc. and chairman of the Israel-U. S. Business Council, presided. □



## THE ECONOMY

Administration Planning  
1980 Wage Guidelines

With President Carter's anti-inflation program hitting its half-year mark this month, officials of the Council on Wage and Price Stability are busy sketching out the guidelines for fiscal 1980.

Council Director Barry P. Bosworth says that the second year wage guidelines probably won't be much lower than six percent or higher than the current seven percent.

Despite an unexpected 1.3 percent rise in wholesale prices in January and a 0.9 percent consumer price rise, Mr. Bosworth says that widespread cooperation "will have a very significant effect on inflation this year."

"We'll have to decide where we are before we can make any changes," a council spokesman says. That probably will not be before the April consumer price index is reported in late May.

The council then plans to announce new guidelines around August to give business and labor some advance notice before the program's second year begins on Oct. 1. "Last year we waited too long," says Mr. Bosworth. "A lot of companies make pay plans earlier in the year."

To tackle its growing responsibilities, the council has increased its staff to 233 from the 43 with which it began.

A staff member says compliance with the guidelines has been better than expected; staffers spend about half their time responding to people blowing whistles on suspected violators. "It's premature to say it's going to work, but it's not premature to be optimistic," he says.

However, continued high prices have the council worried. It is now going after small and medium-size firms to see if they, too, are sticking to the voluntary compliance standards. There is concern that these firms have been boosting prices in anticipation of possible mandatory guidelines later on.

Some council members and staff fear that the wage side of the guidelines will not hold up. The seven percent yearly wage increase has been under attack by labor since it was established. This spring and summer, the nation's largest and most powerful unions could undermine the wage guidelines at their bargaining sessions, which will generally cover wage settlements for the next three years.

## CORPORATIONS

Reports on Effects  
of Inflation Proposed

The effects of inflation and changing prices on the continuing operations of large corporations may soon have to be reported as supplementary information to regular financial statements.

Under a proposal by the Financial Accounting Standards Board, large publicly held corporations could report inflation on either a constant cost or constant dollar basis. The FASB proposal, if adopted, would apply to the

1,000 largest corporations and financial institutions in the nation. A spokesman for the organization said the procedure would be too expensive and time-consuming for smaller businesses to use.

Shareholders Must Be  
Told About Conversions

Shareholders must be told about the ins and outs of major transactions when publicly held companies become private corporations, says the Securities and Exchange Commission.

In response to the burgeoning use of cash sales to turn public companies into private ones, the SEC says that shareholders should know of any benefits and employment contracts management will get as a result of the change—and whether it will be harder to sell their stock.

In this type of transaction, a private company purchases the assets of a publicly held corporation above the market value of the stock. Existing management, which generally owns a large bloc of that stock, often is given a long-term employment contract to run



Annual Meeting: Stockholders must be informed of the details when publicly held companies become privately owned, says the Securities and Exchange Commission.





Rep. Thomas Kindness: Clearinghouse for regulatory data urged for small business.

the new private company. But employment contracts and certain tax breaks aren't given to other, smaller shareholders, the SEC notes.

So, if many shareholders initially sell their stock, it becomes hard for the remaining holders to sell off theirs. This, according to the SEC, can result in a possible conflict of interest between management and shareholders.

## SMALL BUSINESS

### Female-Owned Firms Get More From Government

Government business for women is improving dramatically.

The federal government did more business with female-owned firms during the first quarter of fiscal 1979 than it did during all of 1978. Much of the improvement can be attributed to the efforts of both independent and federally sponsored women's groups, says Sally Bender, director of the women's coordination committee for the Small Business Administration.

Approximately 20 percent of all government procurement went to female-owned businesses from October through December of 1978, says Ms. Bender. This compares with 18 percent in fiscal 1978.

### Ex-Im Bank Establishes Hotline for Exporters

Small firms interested in exporting their products or in learning how to invest in foreign markets now have a hotline to Washington.

The Export-Import Bank has set up

a toll-free exporting information telephone service for small business as part of a cooperative effort by five government agencies to encourage small firms to invest and expand in the foreign marketplace.

The hotline number—800-424-5201—is in operation between 7:30 a.m. and 5:00 p.m. (EST) Monday through Friday.

In other attempts to help small business deal with government red tape and paperwork, Rep. Thomas N. Kindness (D-Ohio) has introduced a bill that would establish a clearinghouse of regulatory information in SBA's regional and field offices.

## TRENDS

### Congress Considers Veto Over FTC Rules

Support is mounting to give Congress veto power over rules made by the Federal Trade Commission that have the effect of laws.

The National Chamber is supporting a legislative proposal by Rep. James T. Broyhill (R-N.C.) that would also require the FTC to conduct cost-benefit analyses to support new regulations.

Attorney General Griffin Bell has already called on Congress to "sharply curtail, if not abolish, the rule-making power of the independent regulatory commissions."

### Administration Proposes a Break for Small Savers

Small savers would get a break from administration proposals to change regulations for financial institutions. Under recommendations proposed by the Treasury Department, financial institutions would be able to pay more interest to small savers. Specifically, the administration recommends that:

- Federally chartered thrift institutions be allowed to invest up to ten percent of their assets in housing-related consumer loans.
- The six-month money market certificates tied to Treasury bill rates now in denominations of \$10,000 be reduced to \$5,000. New one-to-four-year certificates would be available in denominations of \$1,000.
- All federally insured thrift institutions be permitted to offer variable-rate mortgages.

- Depository institutions be allowed to offer interest bearing checking accounts without the interest differentials that now exist between banks and thrift institutions.

## AGRIBUSINESS

### Farm Exports to Taiwan Expected to Increase

Despite the break in diplomatic relations with Taiwan, no significant drop in U.S. farm exports to the island is expected.

The Agriculture Department predicts the value of U.S. shipments to Taiwan will increase from \$729 million in fiscal 1978 to between \$800 million and \$1 billion by Sept. 30.

Taiwan has already signed agreements for larger shipments of soybeans, corn, cotton, and tobacco.

### More Grain Cars Needed to Handle Demand

More rail cars will be needed to haul grain because of the increased domestic and foreign demand, according to an Agriculture Department study.

The report says that by 1985, rail cars should be transporting nearly 116 million tons of grain out of 119 million tons harvested. This would be 12 million more tons than during the 1977-78

PHOTO: DAVID F. WARREN—USDA



Grain by train: More rail cars are needed to transport U.S. supplies.



# OUTLOOK

marketing season when several grain car shortages occurred.

By 2000, grain sold is expected to reach 414 million tons, 165 million tons of which will be moved off the farm by rail. By that time, farmers are expected to be using other means of shipping such as barges and trucks to get their produce to market.

## INTERNATIONAL

### New Trade Promotion Strategy for Mexico

The Commerce Department is planning five major trade fairs in Mexico to promote U.S. petroleum technology suppliers, computer firms, and manufacturers of mining, materials-handling, and plastic production equipment.

The move is part of a new thrust to handle trade affairs with Mexico from Washington.

At the same time, the department has decided to close down a large export promotion center in Mexico City. The department says that trade fairs are a better way to sell the Mexicans

on American goods and that trade centers are costly and inefficient.

But, says Rep. Charles Vanik (D.-Ohio), "I had hoped that if we buy more oil from Mexico, we would be responding with some dynamic action to keep accounts between the two nations in balance." He is chairman of the House Ways and Means subcommittee on trade.

### Foreign Connections for State Banks

State-chartered banks will soon be able to establish and operate foreign branches with the approval of the Federal Deposit Insurance Corporation.

A proposal by the FDIC would give them the same powers as Federal Reserve System member banks now have to make foreign acquisitions.

Under the proposal, a bank would have to obtain the FDIC's written consent before establishing its first branch in a foreign country or acquiring any foreign ownership. Such banks would also have to maintain a separate system of records, controls, and reports.

### Business With China Guide Updated

*Doing Business With China*, a Commerce Department guide, is now updated to reflect China's willingness to entertain new trading techniques.

PHOTO: CARLO LEONI-BLANK STAY



China trade guide: The Commerce Department has updated its report on trading with China because of the intense interest shown by businesses since January.

"Interest in establishing trading ties and contacts with China has been intense," says Commerce Secretary Juanita M. Kreps.

"The need for a basic primer is immediate. We have been deluged with telephone calls and correspondence from American business firms since the Jan. 1 recognition. These calls are now running at the rate of 200 per day."

The revised report includes information on market research, foreign trade corporations, contract negotiations, and the latest U.S.-China trade statistics.

To obtain a copy, write: PRC Affairs Division, Room 4044, Bureau of East-West Trade, Industry and Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230.

### Proposal Would Create U.S. Tourism Corporation

Congress is showing interest in the idea of setting up a quasi-governmental corporation to promote American tourism to foreigners.

The proposal has been made by the Discover America Travel Organization, Inc., an industry trade group, in response to President Carter's decision to cut back sharply on budget outlays to promote American tourism.

Foreign visitors spent \$8.5 billion in this country last year, which kept the U.S. balance of payments deficit from growing even larger. DATO President William D. Toohey told a congressional panel that the proposed firm would organize and administer a travel development program to compete with other countries for the \$156 billion international tourism market.

In his budget message, President Carter said that U.S. travel promotion should be left to the private sector and called for abolishing the U.S. Travel Service in the Commerce Department.

## PERSONAL

### IRS Would Aid Taxpayer Under New Proposal

If a back-burner tax bill in the Senate ever heats up, American taxpayers may get a champion in the Internal Revenue Service.

Sen. Dale Bumpers (D.-Ark.) has in-



# 'I didn't sacrifice great flavor to get low tar.'

"The first thing I expect from a cigarette is flavor. And satisfaction. Finding that in a low-tar smoke wasn't easy.

"But then I tried Vantage. Frankly, I didn't even know Vantage was low in tar. Not until I looked at the numbers.

"That's because the taste was so remarkable it stood up to anything I'd ever smoked.

"For me, switching to Vantage was an easy move to make. I didn't have to sacrifice a thing."

*Pete Accetta*

Peter Accetta  
New York City, New York



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Regular, Menthol and Vantage 100's.

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11 mg. "tar", 0.8 mg. nicotine, av. per cigarette, FTC Report MAY '78.

Warning: The Surgeon General Has Determined  
That Cigarette Smoking Is Dangerous to Your Health.



troduced the Taxpayers' Bill of Rights Act, to improve the relationship between the IRS and the public. The bill would create an assistant IRS commissioner for taxpayer services, who would be responsible for setting up a staff to aid the taxpayer.

"Under the present law," says Sen. Bumpers, "a civil servant can too often be required to act simultaneously as tax collector and taxpayer helper.... The bill will oblige some IRS employees to act solely for taxpayers."

The proposal would allow taxpayers to be interviewed at their residences or places of business and would require the IRS to be more aggressive in notifying taxpayers of options available to both sides in a tax dispute.

### SEC Wants Tightened Options Trading Controls

Look for more regulation of option trading because the Securities and Exchange Commission wants exchanges to tighten the controls on stock options trading. Exchanges and their member firms should also modify their sales practices which often prove costly to

investors, according to an SEC staff report.

The SEC report recommended these major changes in a report on dangers and abuses in stock options trading. The upshot of the report is expected to be a continuation of the SEC freeze now in effect on further expansion of stock options trading.

Options are traded on the Chicago Board of Options exchange and the American, Philadelphia, Midwest, and Pacific stock exchanges.

## GOVERNMENT

### Stronger Civil Rights Stance by Federal Reserve

Tougher civil rights enforcement has been added to the Federal Reserve Board's consumer compliance program, but the board has decided against using "testers."

These are people who pose as loan applicants to get firsthand knowledge of whether a financial institution discriminates in its lending practices. The board labeled their use costly and ineffective although testers are currently being experimented with by the Massachusetts Banking Department.

The board says it will investigate

thoroughly each complaint of discrimination regarding a state member bank and any indication of noncompliance revealed during a bank examination.

The board has approved new civil rights examination procedures that, it hopes, will better identify alleged discrimination in lending practices by member banks.

### Possibility of Default a Threat to EDA

Just one default on an Economic Development Administration guaranteed loan would put that agency in serious economic straits.

In a report to Congress, the General Accounting Office notes that nearly 60 percent of the EDA's program funding is tied up in guaranteed loans to two shipbuilding companies. If even one of these companies were to default, the EDA's \$18.3 million in reserves would not be sufficient to cover it.

In addition, the EDA has heavy outstanding commitments. Since the program started in 1965, it has guaranteed \$197 million in loans of which \$131 million remained unpaid as of last year.

The GAO further recommends that the Commerce Department make an annual reassessment of the reserve needs for potential loan guarantee losses and adjust the EDA reserve accordingly. It urges Congress to limit the amount of all loans and individual guarantees.

### Property Tax is Biggest City Revenue Source

Property taxes continued as the predominant tax revenue source for cities in fiscal 1977, despite periodic efforts to shift the burden.

The U.S. Census Bureau's newest statistical breakdown reports that property taxes supplied \$15.7 billion of the \$26.1 billion tax total.

Other municipal tax sources included \$3.5 billion from general sales and gross receipts, \$2.3 billion from selective sales taxes, and \$4.6 billion from licenses and miscellaneous taxes.

Sales and gross receipts were the major tax source for states, amounting to \$58.2 billion of the \$113.1 billion total during fiscal 1978. State individual income taxes were the second largest source of state revenue, totaling \$29.1 billion. □

PHOTO: JOHN WACHS



Property taxes: Modest homes like these in Elgin, Ill., have skyrocketed in price since World War II, but with that gain have come ever-increasing taxes.





# Automatic Transmission

**At \$99, Rapidial™ is America's lowest priced, best selling automatic dialer and a tremendous convenience.**

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Rapidial works on any line of any multiple line phone. It also works with rotary phones. In fact, you can use the Rapidial keyboard to place all your calls with Touch Tone speed and ease.

It's hands-free rotary or touch tone, using the Rapidial keyboard regularly has added advantages. First, it's hands free telephoning. With a built-in speaker system. You lift the receiver only when you hear someone answer. Second, if the line is busy, Rapidial shuts itself off automatically, remembering the number so you can redial at the touch of a button—as often as necessary.

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**Bonus Features**—Rapidial is about the size of a hand-held calculator. The numbers in memory are identified on the panel on top. The lower section is the Touch Tone keyboard pad. An LED DISPLAY lets you check any number in memory. The PAUSE CONTROL sets the machine to wait for a dial tone. There's an AUTOMATIC CANCEL

button if you change your mind or hit the wrong number. And the BATTERY BACKUP protects the memory in a power failure.

## **Five Different Uses**

For maximum efficiency at the lowest cost, Rapidial stores 20 numbers in memory — eliminating wrong numbers and having to stop to look them up. Numbers entered in seconds and changed — any time — by Rapidialing the new number.

Basically it allows you to place frequently made calls in an instant. In far less time than it would take to tell your secretary to do it for you.

Most executives store both their most frequently called numbers, family, friends, clients or customers, service organizations and suppliers... and those important but less frequently called numbers that almost always have to be looked up.

Others use Rapidial mostly for inter-office calls. Since remembering extensions is almost impossible.

Still others use Rapidial as a memo caller or daily telephone organizer. These men (or their secretaries) program each day's calls. Crossing off the ones that are completed (adding new ones as necessary). A glance assures you no one's been left out, no call back has been forgotten. And a touch of the button gets you the next man on your list.



Finally, many people reserve the bottom row for the flow of calls that always accompanies a special deal or negotiation.

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A 15 number automatic dialer from the phone company costs \$105 to install and \$9 a month plus tax to lease—forever. For \$130 you can get a 16 number dialer—with no keyboard of its own. For \$149.95 you can get a 20 number unit—but a telephone company installation for any multiple line phone is needed and it's not recommended at all for phones with more than three lines.

Rapidial will sell in stores for \$119.95. But is being introduced by mail for \$20 less.

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# Light Sparks New Closed-Cycle Engine



A revolutionary new engine that runs on two components of seawater—hydrogen and chlorine—gets a fine tuning from David Norton of Solar Reactor Corp.

OF ALL THE WAYS contrived in the last 25 years or so to generate energy, a research team in Florida may have concocted the most exotic thus far: Mixing two major components of seawater with light in a closed-cycle engine that theoretically never needs refueling.

As farfetched as the idea sounds, the concept has already been successfully tested, and a handful of investors is betting more than \$1 million the process has the potential for virtually unlimited commercial application in today's energy-conscious world.

Solar Reactor Corp., a Miami-based energy research and development company formed in 1976, has engineered a unique process that involves harnessing the thermal and kinetic energy that is released when chlorine is exposed to light and then mixed with hydrogen. The solar reactor process, as it is called, is actually a cycle that begins with the production of hydrogen and chlorine from brine, or saltwater,

in a standard commercial electrolytic cell.

The two separate gases are injected into a combustion chamber much like gasoline and air in the conventional combustion engine. There, the hydrogen and the chlorine, which has absorbed light, explode, releasing energy and producing hydrogen chloride as the by-product. In the next phase of the cycle, the hydrogen chloride is converted to hydrochloric acid, which is again broken down into the hydrogen and chlorine gases. Unlike a standard internal combustion engine, however, the combustible mixture in the solar reactor engine requires no compression.

## Gases recycled

The gases are then recycled back into the combustion chamber, initiating the cycle again. Unlike gasoline, the two gases are not used up in the process; only the light is used.

One way that Solar Reactor re-

searchers can control the energy produced by the process is to vary the type of light, or electromagnetic radiation, that is used to activate the chlorine gas. Sunlight, for example, will produce a much higher energy yield than artificial light. Another technique that can be used to retard the combustion is to introduce a minute quantity of oxygen into the gaseous mixture.

According to inventor and research scientist Robert L. Scragg: "The solar reactor process represents a potentially inexhaustible, nonpolluting energy source."

"The basic difference between this and other solar energy research is that most other scientists are still attempting to improve upon highly inefficient solar heat receivers or photovoltaic cells. This, however, provides more direct access to the vast solar energy warehouse."

## Considerable interest

Several major American and European firms are interested in the company's process, and some have even observed the tests at the firm's Florida test facilities to validate the process' energy yield. "This has the potential of being the most energetic photochemical system in existence," says Dr. Burch B. Stewart, a physical chemist with Solar Reactor Corp.

The company holds seven U.S. patents on the solar reactor and related processes, and these patents have been applied for in every major industrial nation in the world. "Solar Reactor Corp. is not interested in getting into any phases of the manufacturing of the technology, says architect and co-inventor Alfred Browning Parker. "We only want to license the technology to anyone who wants to use it."

Through research and development the firm is attempting to establish higher levels of technology applicable to a variety of markets. According to Dr. Stewart, the process could be used





# Milwaukee's stability builds stay-bility

Frank DeGuire, President  
Pabst Brewing Company;  
Daniel O. McKeithan, Chairman  
Jos. Schlitz Brewing Company;  
John A. Murphy, Chief Executive Officer  
Miller Brewing Company.

Good things are brewing in Milwaukee. It's the only city in America that has three premium breweries. It's the beer capital of the world. Each was born here, and each has remained here more than 130 years. That's Staybility!

Why Milwaukee? Frankly, there's an environment of stability, confidence, and commitment. Or, in the words of these chief executives...

John A. Murphy, Chief Executive Officer, Miller Brewing Company: "Milwaukee's an ideal city for business. Its people are warm and friendly. They know how to produce a quality product, and they know how to enjoy life."

Frank DeGuire, President, Pabst Brewing Company: "Only in Milwaukee is there a perfect balance between the old and the new. There's the charm and

antiquity of its ethnic heritage blended with a planned program of progress."

Daniel O. McKeithan, Chairman, Jos. Schlitz Brewing Company: "The tradition of Milwaukee is *excellence*. In all things: its great products, its great major league sports, and its great quality of life. The tradition of excellence prevails."

In Milwaukee, city government works and cooperates with commerce and industry. There's a healthy, diversified, economic mix of many different companies headquartered here.

If this atmosphere of stability appeals to you, contact City Development Commissioner William Ryan Drew, 734 N. 9th Street, Milwaukee, Wisconsin 53233, or call 414-278-2908.

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to power jet, piston, and rotary engines, as well as gas and steam-driven turbines.

"We believe it would be ideal for powering stationary turbines for generating electricity," he says. The process could also be adapted to high-impulse engines, such as those used to propel rockets and spacecraft. Solar Reactor's research revealed that the explosive energy released from the chlorine-hydrogen mixture can also be triggered by nuclear waste material acting as a substitute for light, suggesting a new potential use for the country's stockpile of radioactive wastes.

#### Enthusiastic response

A series of technical papers on the process have been delivered here and abroad, including the Second World Hydrogen Energy Conference in Zurich last summer. The response from the scientific community has been enthusiastic.

Dr. Daniel R. Wells, for example, professor of physics at the University of Miami and principal investigator for a number of U. S. Air Force and NASA projects, writes: "Your methods lend themselves to the design of relatively

simple gas turbine engines which use solar energy to supply part of their power."

The solar reactor process was actually an outgrowth of research that Mr. Scragg started in the early 1970s. He had already begun the search for alternative energy sources when he teamed up with Mr. Parker in 1973. Together, they began work that eventually led to the granting by the U. S. government of a series of patents.

In addition to a test site in the Florida Everglades, the company operates a small basic and applied research facility in Miami and an engineering development center in Titusville, adjacent to Cape Canaveral and the Cape Kennedy Space Center.

In one of his earliest experiments, Mr. Scragg, working in darkness, sealed into a glass container a mixture of hydrogen and chlorine with a trace of oxygen. Stepping behind a protective screen, he threw a switch that focused a beam of sunlight on the gases in the container. The resulting explosion blew the glass container into a thousand fragments. He learned that light sources other than sunlight would also trigger the explosion.

In a later test, Mr. Scragg built a mechanism that could be used to measure the energy released by the solar reactor process. A cannon-type device was constructed. The combustion chamber had one inlet for hydrogen and one for chlorine, and an optical assembly of lenses to direct light into the combustion chamber. Bertha, as the device was affectionately named, was set up in a test cell in a building formerly used for rocket fuel research in the Everglades.

#### Explosions tested

Mr. Scragg demonstrated the explosive reactions could be contained, controlled, and repeated. The next step was to document and analyze the reaction in the solar reactor device.

Applied Research Laboratories of Florida, Inc., an independent testing laboratory, was contracted to carry out a series of tests. In one of the experiments, a wooden projectile was fired at a lead sheet located seven feet from the reactor muzzle. An analysis of the test revealed the half-pound wooden ball was ejected from the muzzle at 173 feet per second and struck the lead sheet with an impact equal to a static force of 500 pounds.

Other tests certified by the United States Testing Co., Inc., show that the heat energy produced by the solar reactor process is significantly greater than the published standard value of heat formed from hydrogen-chlorine reactions as calculated by the National Bureau of Standards.

#### First solar engine

Perhaps the most significant demonstration of the potential of the solar reactor process occurred last November when the first engine in history to run directly from the energy of light was put into operation. Members of the company's technical team converted a three and one-half horsepower gasoline lawnmower engine to the solar reactor process.

The experimenters devised a four-foot Pyrex tube leading into the combustion chamber. A series of four 1500-watt tungsten lights were arranged to energize the chlorine in the tube immediately before it was fed into the chamber to mix with the hydrogen. When the light was switched on, the engine sputtered and settled into a smooth purr for five minutes. Currently, the Titusville facility is engaged in testing the adaptation of standard gasoline engines to the solar reactor process. □

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Private enterprise thrives when capital earns a profitable return. Today, the larger share of returns on private capital goes to government, a basis for widespread concern. The National Chamber has responded with an authoritative study and report that answers questions on causes of the problem, what's needed in the way of government change and—perhaps most important—what you can do to improve the climate for savings and investment.

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# Obsolete Wage Incentive Standards Impair Productivity



Used properly, wage incentive systems can be useful productivity tools. About one third of U. S. production workers are covered by some type of plan.

**T**HE NEW wage-price guidelines may prove a boon to companies that are feeling the effects of decreasing productivity caused by obsolete wage incentive programs.

The guidelines, while still awaiting official interpretation, seem to indicate that pay rate increases resulting from productivity gains will not be counted in the seven percent limit. Thus, companies that revamp their wage incentive plans could end up giving their workers legitimate pay increases in excess of the limit.

Wage incentive systems are useful productivity tools if they operate properly. An obsolete plan, however, can cause actual and potential loss of business because labor costs are out of line with the volume of products manufactured. This can lead to a loss of jobs

from the partial or complete close-down of plant operations.

Incentives for industrial workers became popular in the early 1900s, especially in the textile, clothing, and leather industries where much piecework was done.

## Two basic versions

Designed to reward workers for increased productivity, incentive wage plans developed from two basic versions. Under the piecework plan, a predetermined rate is paid for each unit of output; the production bonus plan pays for output over a quota or for completion of a job in less than standard time.

According to a Bureau of Labor Statistics survey, about one third of the nation's production workers are covered by some type of incentive plan in such industries as basic steel, women's hosiery, cigars, fiber cans, leather tanning, pressed or blown glass, ceramic wall and floor tile, and malleable iron foundries.

The problem in many companies today is that the original standards set up many years ago have become outdated as new production methods and new equipment were introduced. Workers have become capable of producing more, but the standards have not changed, and productivity has been deteriorating.

## Inconsistent wages

One symptom of this deterioration is inconsistent wage rates, according to H. B. Maynard and Co., management consultants in Pittsburgh, Pa. If workers in a lower job grade can make as much or more than those in higher grades, there is a serious imbalance in the system. This is shown by a migration of workers from higher to lower skilled jobs where earning opportunities are greater.

Pegging, a practice in which workers fail to produce above a specific level, avoids calling attention to a standard that needs to be corrected.

What to do about an obsolete incen-

tive wage system and how to do it are difficult but necessary decisions. More and more, companies are turning to specialists like Maynard to help them repair a defective program.

Maynard recommends a multistep approach. First, a survey should be conducted to assess the problems and their causes, identify the potential economic return and the risks, and develop an integrated improvement plan.

After a plan of action is developed, many companies must gain union approval. Although unions will often acknowledge the problem, early and proper presentation of management's viewpoint is essential in negotiating vital changes.

## Primary documents

There are three important documents that should be negotiated with the union, say Maynard officials. The first is an agreement to convert, which should include a new rate structure, the conversion units, and a zipper clause that wipes out all existing practices. The second document covers how standards will be set, and the third, the earnings protection agreement, preserves existing wage levels for employees who would be adversely affected by the new standards.

After negotiations are successfully concluded, implementation can begin. First, a development team to install the new program must be selected and trained. Then, the job of developing data begins, using the measurement system previously selected.

The final phase involves development of the support systems, application of standard volumes, and installation of the new wage incentive system.

Regular maintenance and auditing are needed to ensure that the new system continues to function well.

The result, predicts Maynard, will be an improvement in productivity—up to 50 percent in some cases—and a more satisfied and better paid work force. □



# Is this exercise reducing your bottom line?

When you add the time it takes to change paper supplies for different kinds of copies, most high-speed copiers really aren't that fast.

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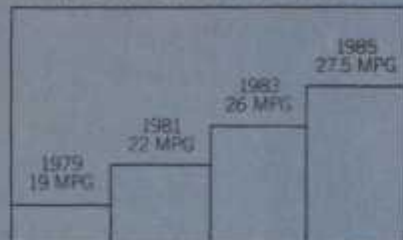
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# MOTOROLA HELPS STRETCH GAS MILEAGE

Automotive manufacturers are caught between a rock and a hard place. They are obliged not only to reduce fuel consumption, but also, at the same



Government mandated Corporate Average Fuel Economy (CAFE) standards. Source: NHTSA

time, to reduce harmful exhaust gas emissions. And these objectives seem to be mutually exclusive.

An engine whose carburetor and spark timing are

adjusted to give high mileage tends to produce unacceptable levels of pollution. The same engine, adjusted for low pollution levels, uses more gas and gives disappointing performance.

The trick is to burn exactly the right amount of fuel at exactly the right moment. But what is "right" depends on a whole complex of constantly changing factors, including terrain, engine and air temperature, barometric pressure, and the load and speed of the car.

It would take a genius to juggle all those factors. Fortunately, Motorola has been working on the problem for some time, and has in fact

produced just such a genius.

## ELECTRONIC ENGINE MANAGER.

It's an electronic engine-management system, controlled by a microcomputer that thinks like a first-rate automobile mechanic. It lives inside the car, and because it can make a million calculations each second, it can automatically regulate carburetion, spark timing, and the recirculation of exhaust gases through the engine. It makes all these adjustments continuously, so you get as much performance with as little pollution as possible, whatever the driving conditions are at that particular moment.

It's a real computer in





# BY MAKING ENGINES THINK.

miniature, with a memory and the ability to manipulate what it learns in terms of what it already knows. It works so well that car and heavy-duty-equipment manufacturers in America and Europe plan to use it, some as early as the 1980 model year.

## IMPOSSIBLE WITHOUT ELECTRONICS.

Such precise, continuous engine management would be impossible without the integrated circuit, an electronic microcosm that contains the equivalent of twelve thousand transistors and measures about 5mm square. These small miracles are the central nervous system of Motorola's electronic engine-management system,

and they're a remarkable but not unique demonstration of the kinds of things Motorola is doing with microelectronics today.



A microcomputer drawn larger than life.

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models of two-way radios, and we no longer make home TV sets here at all.

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For further information, write Public Affairs Office, Corporate Offices, Motorola, Inc., 1303 E. Algonquin Road, Schaumburg, Illinois 60196.

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More and more women are entering the American labor market each year, some of them in jobs traditionally reserved for men. Riveter Nancy Gray worked on the Alaskan pipeline.



The building trade unions today attract few younger workers; many of them feel they can do better in nonunion jobs.



Today's union member, who is better paid and informed, has the same concerns about high taxes, government spending, and inflation as all American citizens.

Membership in many old-line, blue-collar unions is falling off. However, the rolls are being replenished by thousands of white-collar workers. Public employees are now a prime target of union organizers.



# Labor's Changing Profile

Unionism is at a crossroads, and many think it is because leadership is out of step with the rank and file

**T**HERE IS increasing evidence that the old-line leadership of organized labor is out of step with a growing number of rank-and-file union members.

While many of their leaders continue to advocate outdated, unwanted, and inflationary social and regulatory programs, the rank and file appears to be growing more conservative.

Many workers deeply resent the inflationary impact of the spending, taxing, and regulatory programs their union leaders seek and are becoming increasingly restless with such pursuits.

A new National Chamber-Gallup Organization survey of worker attitudes, for example, finds workers say the major blame for inflation is federal deficit spending.

What is happening is a fundamental change in the profile of the organized labor movement.

## Losing influence

That organized labor is losing its economic and political influence in the United States is indisputable. Whether it can stage a comeback is not so clear. If it does, the movement will almost certainly draw its strength from a wholly different segment of the work force. That already is being demonstrated by the huge numbers of public sector employees—teachers, police officers, sanitation workers, government clerks, school janitors—and service industries workers who are joining various unions.

The story of what is happening to the unions is perhaps best illustrated in a single set of statistics. The number of unionized jobs soared from 13.2 per-

cent of the nonagricultural labor force in 1935 to a peak of 35.5 percent in 1945. Since then, it has fallen steadily to today's 24.5 percent.

In more concrete terms, consider the building trades. Ten years ago, about 70 percent of all building tradesmen belonged to unions. Today, only 40 percent of these workers carry a union card. In housing construction, the numbers are even smaller. More and more younger construction workers are seeking nonunion jobs where the pay is sometimes higher and where they are not held back by stringent union seniority rules.

The nation's coal mines tell another part of the story. In John L. Lewis's long and tumultuous reign, hardly a lump of coal was dug out of the ground if the pick wasn't held by a member of the United Mine Workers. Today, the UMW, weakened by internal dissension, mines less than half the coal being produced. Ten miles from the UMW international headquarters in Williamson, W. Va., a nonunion mine will soon open.

## Benefits now low

Some of the benefits that unions once offered are now guaranteed by law; for example, a minimum wage and maximum working hours. The National Labor Relations Board, which supervises secret elections to determine whether workers want to join a union, says labor is now losing about 55 percent of such elections. In the 1940s, organized labor chalked up victories in 80 percent of these elections.

Gone now are the giants of unionism



such as Walter Reuther, Sidney Hillman, and John L. Lewis. They could sway elections, dictate to Congress, and even influence presidents. From their workers they demanded and got blind obedience. Contemporary labor chieftains run their affairs from less lofty pinnacles of power. And more and more, newcomers to the rank and file demonstrate a spirit of independence and free thinking.

Dr. William Haber, professor emeritus of economics at the University of Michigan and a consultant to the Secretary of Labor in six administrations, says:

"You've got a real skills revolution taking place in this country. Historically, labor was organized by industries and not in offices, in factories and not in stores. Unions now have to





Police strikes such as this one in New York City and walkouts by teachers, sanitary workers, and other public employees are turning off many Americans. People frequently ask: Why are such strikes permitted in the first place?

think about how to approach white-collar people. Is the appeal that is applicable to teamsters and assembly-line workers also applicable to workers who have college degrees and management mentalities?"

One man who has had tremendous success in organizing these white-collar workers is Jerry Wurf, president of the American Federation of State, County, and Municipal Employees.

"A worker who started ten or 20 years ago looked on a \$15,000 to \$20,000 salary as the good life," Mr. Wurf says. "Now he finds that with taxes and inflation, he can no longer pay his bills or live comfortably on that kind of salary. So these people are easy converts to conservatism. And politicians have capitulated to this conservatism."

#### Middle-class members

This conservatism helps to account for why labor is losing control over its members. Better educated, better informed, more affluent, today's union member is solidly middle class. He owns or will buy a home, most likely in the suburbs; his union father or grandfather probably had to rent living quarters in or near an industrial section close to work. He is concerned about taxes, the condition of schools, and other public issues. What he owns he doesn't want to lose.

When union leaders call for more social spending, he balks because he knows he will be paying the bill. The economic positions espoused by his leaders are not necessarily to his liking. A recent *Los Angeles Times* poll

showed that union members, by two to one, blamed unions more than business for inflation.

"The leaders of organized labor are out of touch with their membership," says Robert T. Thompson of Greenville, S.C., a top labor law attorney and chairman of the labor relations committee of the Chamber of Commerce of the United States. "Union members today are more independent and less beholden to the unions for their economic survival."

Young men and women entering the labor market today are skeptical about joining unions, according to Mr. Thompson. He explains:

"They want to know what the unions have to offer. They want to know why they should pay their money to unions to hold their jobs. These young people are not always sold on what they see."

The philosophical gap is as wide as the age gap between younger union members and their leaders. Asks a White House aide: "What does a 25-year-old steelworker have in common with George Meany?"

James C. Paras, a prominent San Francisco attorney dealing in labor affairs, points out: "Many union officials have difficulty relating to the new work force. They often find a composition of workers with whom they're not comfortable."

"And, of course, management is different today, with professional team operations steadily replacing the old entrepreneurial types. With greater operational efficiency modern business

has expended a great deal of its resources in forging benefit packages for its employees.

"Thus, the appeal of the union is often neutralized. In a way, unions are the victims of their own successes of past years."

Even though their numbers in relation to the total work force are diminishing, labor unions are still numerically strong. There are 21 million members in the United States—13.6 million belong to the AFL-CIO. There are 210 individual unions, 112 with the AFL-CIO, 63 unaffiliated, and 35 associations.

#### Dramatic increases

Some union leaders are convinced that organized labor is on the verge of a dramatic increase in membership. Two of the nation's three largest unions, none affiliated with the AFL-CIO, have been boosting their memberships after declines that began leveling off in 1975. For example, the United Auto Workers is up to 1.4 million members and the Teamsters Union has reached the two million mark. The National Education Association has been holding its own with 1.8 million.

The most dramatic growth is in AFSCME. In less than five years it has doubled its size. Last year, membership passed the one million mark, and the union replaced the steelworkers as the AFL-CIO's largest affiliate.

This will change in June when the Retail Clerks International Union, with 728,000 members, and the Meat Cutters and Butcher Workmen of North America Amalgamated, with 510,000, are scheduled to merge. The combined membership of 1.24 million would make them the largest union in the AFL-CIO.

#### Organizer's dream

For Mr. Wurf, state and local governments have been an organizer's dream. The number of state, county, and municipal employees rose from 6.4 million in 1960 to 12.2 million in 1976; the combined monthly payroll skyrocketed from \$2.2 billion to \$10.4 billion—a 368 percent jump.

Says Mr. Wurf: "I predicted ten years ago that the unreasonableness of public officials would guarantee the growth of public unions in this country. That was when our union was about one fifth its size today. 'The heavy hand and unreasonableness of management will always guarantee that there will be unions in this country.'"

George B. Morris, Jr., vice president  
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for industrial relations at General Motors, agrees with Mr. Wurf, but for different reasons. Unions, he says, "are well-entrenched, well-heeled, well-organized, and have competent staffs."

Mr. Morris, who is in his 39th year at GM, says the corporation "prefers a good, solid, responsible union rather than one split up and fighting."

### Well-kept secret

How well-heeled are unions? That is a well-guarded secret because unions are not required by law to make the same financial disclosures as most businesses.

When Dan C. Heldman, a political scientist, researched a paper on the subject for the Council on American Affairs he found all doors closed to such information. Even the Labor Department, which has access to such figures, published only one report on the subject in 1960 and nothing since.

Using this 1960 report, Mr. Heldman found that the unions collected \$1.4 billion in 1960—\$922 million from dues and fees, and \$506 million from investments.

From a variety of sources he was able to surmise that in 1975 the unions brought in \$5.4 billion—\$3.5 billion from dues and fees, and \$1.9 billion from investments.

Mr. Heldman says that union income in 1975 exceeded the total receipts of 47 state governments. If the unions were a corporation, their \$3.5 million in dues income would have made them the 52nd largest corporation in the country, between the Borden Co. and McDonnell-Douglas. Since unions are tax-exempt, their \$3.5 billion in dues exceeded the \$2.5 billion net income of Exxon Corp., the largest American corporation, in 1975.

### Billion-dollar funds

The financial strength of organized labor will be further enhanced if it succeeds in convincing Congress that unions should control the \$200 billion in union pension funds now largely managed by banks and corporations, as required by the Taft-Hartley law. Behind this move is labor's pique that large amounts of pension money are invested in nonunion companies.

"Responsible trade unionists have to conclude that they have been financing their own destruction," William Winpisinger, president of the International Association of Machinists and Aerospace Workers, told a Senate committee studying pension funds.

Reed Larson, director of the Nation-

al Right-to-Work Committee, complains that organized labor has found ways to get around federal campaign spending laws and is laying out millions of dollars to influence elections.

"Unions can legally use as much of their treasury money as they want for political activity directed toward their members and their families. That's 40 million voters right there."

Meanwhile, he says, the unions are pressing Congress to restrict direct mail fund-raising, which would directly affect organizations such as the right-to-work group.

Not the least of labor's problems is

**"The business community has the political upper hand . . . it ain't going to last long."**

William Winpisinger

that business is taking on the unions in the legislative arena and winning. Labor is smarting from the defeat of such goals as labor law reform and common-site picketing.

Says Kenneth Young, director of the AFL-CIO's department of legislation: "It is no secret that business lobbyists copied many of their tactics from the labor movement. Now, it's labor's turn to learn from business's success."

Mr. Winpisinger is blunter: "The business community without any question has the political and philosophical upper hand, and business had better ride it for all it's worth, because it ain't going to last long."

John Brown, legislative director of the International Union of Operating Engineers, complains that labor's political stature has been weakened by new federal election laws that enable business to pour millions of dollars into political campaigns.

"Labor could never match its financial strength against corporate America," Mr. Brown asserts. "What we had going for us in the past was the big involvement of our rank and file. But that's not big today compared to the money that business is doling out in congressional races."

Rep. Mickey Edwards (R-Okla.), a member of the House Education and Labor Committee, explains why labor has lost some of its political clout: "You don't have an exploited working class in this country today."

"When union people become the suburban working class, their concerns change. They are no longer concerned about social change. They're worried about inflation, the cost of groceries, and sending their kids to college. They now have the same interests as those people who were often the targets of the old labor leaders."

"What the unions are still supporting is the great range of social programs, a consumer protection agency, Equal Rights Amendment, and so forth. The average rank-and-file member doesn't care about those issues."

### Even members unhappy

Americans are increasingly turned off by public sector strikes. Even union members are intolerant of strikes by police, teachers, and sanitation workers because they are just as inconvenienced as anyone else by traffic snarls, children missing school, and uncollected garbage.

The 15-day police strike in New Orleans forced cancellation of the famed Mardi Gras celebration, the first cancellation since Civil War days. Whatever public support the striking police had for their cause evaporated. The police went back to work without a contract, and the Teamster-backed police union suffered a major defeat.

A larger question is why any public employee should be able to strike in the first place. Federal law and many municipal and state laws ban such strikes, but they still continue to break out in all parts of the country, despite statistics showing that public employees are better paid than their counterparts in private industry, enjoy better job tenure and security, and share in generous fringe benefits.

### Agreement nets millions

Thirty-two states protect their public employees from forced unionization; 17 other states, however, either authorize or mandate union membership. In 1977, an agency shop agreement replaced a right-to-work guarantee in New York State affecting 1,039,000 public employees. Under this agreement, an employee who does not join a union is usually required to pay the equivalent of union dues. According to the National Right-to-Work Committee, this represented a \$38 mil-



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lion revenue windfall for New York unions.

Labor's fading image disturbs some labor leaders. For example, Douglas A. Fraser, president of the United Auto Workers, asserts: "The loss in union strength is our own fault. Labor in many areas has a bad image, and we will have to improve that image."

Another labor leader feels that the overall image of labor will change only when George Meany steps down as president of the AFL-CIO. Victor Gotbaum, executive director of AFSCME District Council 37, representing 110,000 New York City employees,

says: "If Lane Kirkland (AFL-CIO secretary-treasurer) replaces Mr. Meany, the policies will not change that much, but Mr. Kirkland is a younger, more energetic man. There is no question he will lend a more activist cast to the labor movement. And there is no doubt the whole image will change."

Because many of today's union leaders are well up in years, there is little doubt that within the next decade new faces will assume leadership roles. These new leaders will have a profound effect upon the union movement.

Leonard F. Janofsky, of Los Angeles,

president-elect of the American Bar Association, says: "It's obvious that labor's situation has changed from the old days. We're in a different era."

"The former top consideration was security. We're now beyond that. Unions today must think in terms of doing a job for their members. But because of the effect that their actions can have on the economy, they must think more in terms of the welfare of the entire country. The same thing, of course, is true of business." □



To order reprints of this article, see page 41.

## Who's Leading Whom



Gale Cronk ... tired of pap.

Gale Cronk is a dedicated trade unionist. For almost 30 years he has been a member of United Auto Workers in Flint, Mich., serving Local 659 in various capacities.

Now, Gale Cronk is worried about the future of the trade union movement in America.

"If labor doesn't reappraise its position, it's going to blow the whole ball game," he told NATION'S BUSINESS. "The union leaders and union members aren't even playing on the same team anymore."

"We're looking for relief from inflation and our union leaders are looking the other way," he complains. "If our

leaders aren't representing the workers, who are they representing?"

Mr. Cronk, a tool and diemaker at the Chevrolet fabricating plant in Flint, ran for Congress on the Republican ticket last year but was defeated by the incumbent Democrat, Rep. Dale E. Kildee.

"I'm a conservative when it comes to my pocketbook, and some of the unions were able to turn this against me, even though I was trying to protect the other workers' pocketbooks as well," he says. "I simply got tired of letting the government solve all our problems, and I tried to do something about it."

Mr. Cronk remains a strong believer in union membership but is disturbed about the direction many unions are taking.

"My own union—the UAW—is way out of step with what's going on in the country today," he says. "It clings to the mentality of the 1937 sitdown strikes."

He says he is encouraged by the caliber of some of the younger union members: "They are the ones who will save the unions if they are going to be saved. It's up to them to change the path labor has been taking."

Mr. Cronk, who has visited many General Motors plants around the country as a union representative, says he is convinced that the average UAW member appreciates the role that unions have played in getting him better wages, working conditions, fringe benefits, and the rest. But workers expect the unions to represent them in other ways today.

"Your union member isn't dumb," he explains. "He knows that the government and its policies are what's chewing up his paycheck. He wants his union to stop this inflation. What he has won with the help of unions he doesn't want to lose because the unions aren't fighting for him."

Mr. Cronk predicts that labor's rank-and-file will start to speak up. "I can see some changes in attitude developing," he explains. "They are tired of the pap dished out by their union officials and they are saying: 'Hey, this just doesn't make sense.'"

In his campaign for Congress, Mr. Cronk is convinced he lost votes by speaking out against public sector unions.

"I think if you are a public servant and you are paid by the taxpayers, you don't have a right to belong to a union," he says. "And there is no way in the world a public employee should be allowed to strike."

Mr. Cronk's appraisal of UAW President Douglas A. Fraser is less than flattering. He says: "Doug Fraser is far too liberal. He's too hung up on this idea of the government trying to provide all human needs. He misleads people into thinking they can get something for nothing."

Mr. Cronk is certain that the country would be better off if, every time a problem surfaced, people would stop asking: Why doesn't the government do something about this?

"I tell you how I feel," he says adamantly. "There isn't a damned thing the government can do for me that I can't do better for myself."



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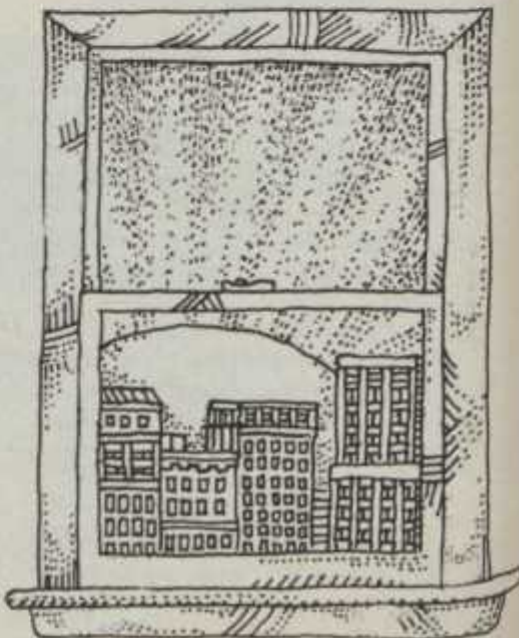
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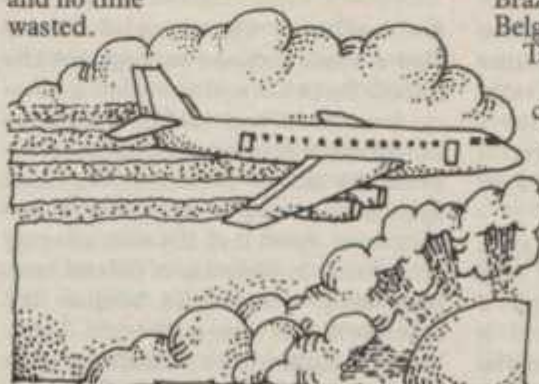
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*Antitrust violations cost at least \$150 billion every year. They strain savings and earnings. They fuel inflation. And they enrich unethical businesses. Without this legislation, too many of these violations will go unchallenged.—Sen. Edward M. Kennedy (D.-Mass.)*

*Sen. Kennedy will beat the business people over the head with this bill. It will open the antitrust field to legal extortion and will cost consumers and businesses billions of dollars. The only people who will benefit are the attorneys.—Sen. Orrin G. Hatch (R.-Utah).*

**W**HAT the two senators are talking about is a multibillion-dollar piece of legislation that carries a rather nondescript nickname—Illinois Brick. It is one of the most powerful and costly legal weapons aimed at business in modern times.

At issue is whether antitrust suits involving price-fixing can be filed only by the primary victim—for example, a wholesaler buying directly from a manufacturer—or by everyone in the distribution chain, including the consumer.

The U.S. Supreme Court ruled in 1977 that only the primary purchaser can file suit. Sen. Kennedy, backed by President Carter, the National Governors' Association, a number of labor unions, consumer groups, and others favors sweeping, no-holds-barred suits at each level of sales. An Illinois Brick bill would make that possible.

Despite the stakes—and not too many business people are alert to the consequences—Illinois Brick makes

few headlines. The State of Illinois filed a triple damage suit against the Illinois Brick Co. and ten other masonry firms that had sold a contractor thousands of dollars' worth of concrete blocks for a new library at Northern Illinois University. A U.S. federal district court ruled that the suit, alleging price-fixing in violation of federal antitrust laws, was invalid because the concrete blocks were not bought directly by the state from a manufacturer. A court of appeals reversed that decision, but the U.S. Supreme Court agreed with the lower court.

Legislation setting aside the Supreme Court's ruling passed both the House and Senate Judiciary committees last year but did not come up for a vote in either chamber.

Sen. Kennedy, as new chairman of the Senate Judiciary Committee, makes no secret of his determination to make his Illinois Brick bill a cause celebre. In his words, the bill setting aside the high court ruling will have

"the highest priority in the 96th Congress."

On this and several other issues in which American business—small and large—has its back to the legislative wall, Sen. Kennedy and Sen. Hatch are in face-to-face confrontation.

Winning the helm of the Judiciary Committee has provided Sen. Kennedy, who has just turned 47, with a powerful new forum from which to pursue his version of free market competition and more clout to push through stringent reform of antitrust laws.

## No-fault monopoly

The implications for business are enormous. Sen. Kennedy is totally committed to divestiture by the major oil companies. For example, he has called for barring oil companies from owning pipelines. He champions a no-fault monopoly law which, in effect, would make size alone a violation of antimonopoly laws.

Another Kennedy proposal would outlaw mergers between any of the 100 largest U.S. companies with sales or assets of \$2.5 billion, unless assets of equal value were sold. Also, it would prohibit any two of the nation's top 500 firms from merging unless they could prove that a substantial improvement in efficiency would result.

An immediate Kennedy target, however, is the giant interstate trucking industry. The senator claims it must be deregulated to end an immunity from antitrust laws that Congress granted the motor carriers in 1948 so they could establish their rates.

## Beck and call

There is every indication the Senate Judiciary Committee will become a personal Kennedy fiefdom because he has the votes to dominate it. Also, he has the largest committee staff in Congress—more than 200 people—and the biggest budget—about \$5 million. There are unconfirmed reports he has about 60 experienced lawyers at his beck and call. Some are on the committee payroll, and some serve either as paid or unpaid consultants.

The composition of the Judiciary Committee practically guarantees an antibusiness thrust, unlike previous years when the committee was almost equally divided philosophically.

For example, three conservative Democrats who helped shape that bal-





Sen. Edward M. Kennedy now presides over the powerful Senate Judiciary Committee, which has jurisdiction over many issues that will directly influence the course of American business for years to come.

ance, are no longer in Congress. The longtime chairman, Sen. James O. Eastland of Mississippi, retired at the end of the last congressional session. Both Sens. John L. McClellan of Arkansas and James B. Allen of Alabama died in office. They have been replaced by three Democrats—Sens. Howell T. Heflin of Alabama, Patrick J. Leahy of Vermont, and Max Baucus of Montana—all of whom are expected to vote with Sen. Kennedy in most instances.

On the Republican side, Sen. Robert Dole of Kansas has replaced Sen. William L. Scott of Virginia, who retired. Sen. Dole, like Sen. Scott, is a conservative. In another change, which does not alter the voting structure, freshman Sen. Thad Cochran of Mississippi has replaced Sen. Malcolm Wallop, who moved to the Senate Finance Committee.

#### Different perspective

"We simply don't have the horses in the committee to block some very strong antibusiness bills that are coming before us," says Sen. Hatch. "What happens on the Senate floor to these bills will depend on how soon business wakes up to the fact that it is being clobbered."

Sen. Kennedy, of course, looks at all this from an entirely different perspective. The following quote, or variations of it, spells out how he would like to see American business—prodded by

federal law and regulation—function:

"It is my fundamental conviction that free market competition, protected by vigorous enforcement of the antitrust laws, should continue to be the central organizing principle of our economy.

"The benefits of competition—economic, social, and political—have been demonstrated time and again. Competition drives industry costs down, allocates scarce resources in the most efficient manner possible, and dramatically increases innovation, productivity, and technological advances.

"A competitive environment is our most effective weapon against inflation. It gives the American consumer the opportunity to choose among a great variety of products and services. And it gives the American business community the incentive to profit and grow through hard work and inventiveness."

Sen. Hatch, on the other hand, sees expensive devilment in the Kennedy formula. He says:

"If you take Illinois Brick, the conglomerate merger proposal, changes in the monopoly laws, no-fault monopoly, and some of these other plans, you are going to clog our courts, create a whole new cadre of legal extortion in this country, and absolutely shut down countless business establishments.

"I'm not just talking about big business. Small business owners will be

hard put to survive. They will have to hire accountants and lawyers, very skilled in the antitrust area, whether or not they are ever in danger of violating antitrust laws. It will mean higher costs, higher legal expenses, time away from their business to justify their behavior, and settling a lot of cases, because it's cheaper to settle than to take a chance on the verdict, and all because the law will be stacked against them.

#### Vigorous personality

"When you add that to the already destroyed ability to raise capital thrust upon small business by the federal regulatory agencies—specifically, the Securities and Exchange Commission—you are moving small business to the point where only the most hardy will survive."

There is little doubt that the driving, vigorous personality of Ted Kennedy has begun to imprint itself on the Judiciary Committee. Unlike the easygoing Jim Eastland, Ted Kennedy is an activist. He is impatient with the status quo. While he respects Senate tradition, he shows signs of disdaining it.

Within days of becoming chairman, Sen. Kennedy set out to reduce the number of subcommittees from ten to five, but the committee went along with only three reductions. He also was rebuffed in an attempt to withhold subcommittee chairmanships from the committee's new Democratic members. By shrinking the number of subcommittees he was able to pull most of the 200-plus staff jobs under his direction, further strengthening his control over committee operations.

#### Fully operational

A member of the small minority staff of the committee told NATION'S BUSINESS:

"Teddy has surrounded himself with one of the most clever, brilliant, dedicated, ambitious, zealous, and hard-working groups of men and women on Capitol Hill. He could take a staff like this into the White House and have it fully operational in five minutes."

A question among many Kennedy watchers is the degree of control he exerts over a staff that seemingly propels him in every direction, feeding him fodder to take positions on virtually every issue, whether in his area of expertise or not. One frequently hears





Sen. Orrin Hatch of Utah says some bills before the Senate Judiciary Committee would pave the way for legal extortion and shut down many business firms.

the words "abrasive" and "pushy" applied to the Kennedy palace guard.

Only with a staff of such size, talent, and proficiency could Sen. Kennedy speak out on so many public issues with such frequency. Whether it is the mystique of the Kennedy name, his personal magnetism, his perennial status as a likely presidential candidate, or a combination of all three, Sen. Kennedy enjoys one of the most rewarding press relationships in Washington.

#### Urban problems

In one month alone—last January—he spoke out on such diverse matters as dental care, the security of Taiwan, crime victims, urban problems, the confirmation of federal judges, SALT II negotiations, Mexican oil, the Carter energy policy, and the role of women in American life, to name only a few. His views were duly recorded by press, radio, and television.

Even before taking over the Judiciary Committee Ted Kennedy enjoyed the reputation of being one of the hardest workers in the U.S. Senate. Some Senate observers say he outshines his two late brothers—President John F. Kennedy and Attorney General Robert F. Kennedy, both of whom served in the Senate—in this respect.

In his 16 years in the Senate he has, by all accounts, lived by the rules. Now there are signs of impatience, of wanting to plow over and around tradition and custom. Some of his colleagues, Democrats and Republicans, are accus-

ing him, sometimes openly, of blatant glory-seeking and self-aggrandizement. The current fight over trucking industry deregulation is an example.

Sen. Kennedy is determined to end the antitrust immunity enjoyed by the interstate trucking industry and the place to do that, he insists, is in the Judiciary Committee.

#### Showdown fight

But Sen. Howard W. Cannon (D.-Nev.) insists just as strongly that any move to increase competition in the trucking industry must be resolved in the Senate Commerce, Science, and Transportation Committee, of which he is chairman. Sen. Cannon's Democratic colleagues on the committee back this position.

A showdown fight on the Senate floor to settle the jurisdictional dispute would have been inevitable, but the Massachusetts senator decided to accept a compromise.

Some of the sharpest criticism of Sen. Kennedy came from fellow Democrat Sen. Ernest F. Hollings of South Carolina.

In a discussion of the issue recently on the Senate floor, he accused Sen. Kennedy of using very insidious and devious means to gain jurisdiction over the deregulation proposal. Then, in language rarely used by senators when they disagree with one another, the South Carolinian asserted:

"They have been bringing bills, the distinguished chairman of the Judiciary Committee, the senator from Massachusetts, has been charging up to the parliamentarian for the last eight weeks with his very astute and tricky staff to say: 'How can we doctor this one to get it referred?' What we have is a total breakdown of the discipline, rules, and procedures of the U.S. Senate just to grab hold of one thing."

#### Pet project

At another point, after charging Sen. Kennedy with trying to make "headlines rather than headway," Sen. Hollings accused his colleague of ignoring senatorial rules to push a pet project.

"What we end up with then, is that we will have two sets of rules," he said. "We have the rules for the 99 senators who want to go along with the U.S. Senate. Then we have the rules for the Kennedy senate or the Kennedy hegemony, because we cannot tell where that thing will come from."

Reserving his harshest comments for last, Sen. Hollings declared:

"Talk about the Ethics Committee. Where are the ethics on the floor? If senators have to be kept from being tackled from behind on particular subjects before their subcommittees, and everything else like that, by a wild card over here who says we can do lawmaking and I can get the parliamentarian to rule with me, I just do not think that brings forth stability and a responsive service within the Senate, and a responsible Senate in this instance."

Sen. Daniel K. Inouye (D.-Hawaii) added: "The last thing we should create in the Senate is a supercommittee. Important as competition and anti-trust principles are, I doubt that any of us would seriously maintain that they should transcend every other consideration in our nation's economy."

#### Huge budget

Another sore point with some senators is the size of the Kennedy committee staff and its huge budget.

During the same Senate colloquy over which committee should consider trucking deregulation, Sen. Wendell H. Ford (D.-Ky.) sharply questioned the Judiciary Committee's budget requests. A single Judiciary subcommittee, he said, has asked for more money than the entire Energy and Natural Resources Committee.

"Maybe they can substantiate 225 employees, maybe they can substantiate \$1.5 million for subcommittees, but they are going to have to prove it," Sen. Ford declared.

Sen. Adlai E. Stevenson (D.-Ill.), who spearheaded reorganization of the Senate in the last Congress, focusing particularly on the jurisdiction question, joined in the criticism of Sen. Kennedy's efforts to move in on trucking deregulation.

If a strained interpretation is used, Sen. Stevenson said, to permit a transportation bill to be referred to the Judiciary Committee "because it has been drafted so as to require or propose a change in the antitrust laws, then the same strained interpretation would undermine what we did, and did wisely in my judgment."

#### Extension of authority

In the opinion of Sen. John Tower (R.-Texas), "the perception is that Sen. Kennedy is attempting to extend his authority by rather artfully drawing the legislation on his own terms."

Seeds are already being sown for another confrontation between the Judiciary Committee chairman and those



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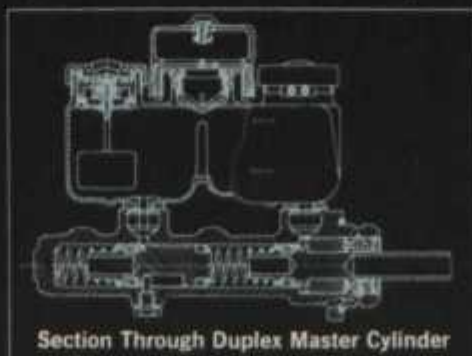
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### A blue slip

Sen. Kennedy would like to change all that, although he knows he will run into opposition. He told a press conference recently:

"In the important months ahead, I will not unilaterally table a nomination simply because a blue slip is not returned by a colleague. I cannot, however, discard cavalierly the tradition of senatorial courtesy—exception-riddled and outdated as it may be."

On the latter point, Sen. Kennedy says he will ask the nominee's two senators for their opinion, but if a blue slip is not returned he will place the nomination before the full committee and take a vote regardless of the implied veto.

Sen. Strom Thurmond of South Carolina, the ranking Republican on the committee, has indicated he will not accept this break with tradition.

Sen. Hatch says bluntly: "We may have to go to the Senate floor to settle this one, too. We can't let them waltz a bunch of political hacks through the committee without raising a finger."

The impact of what Sen. Kennedy and his committee do in the area of judicial appointments will be felt throughout the federal judiciary and for years to come.

### New judgeships

Last year Congress created 152 new federal judgeships and President Carter has appointed about 60 new judges to fill vacancies. All these must be processed by the Judiciary Committee. Some might be on the bench for many decades.

Sen. Kennedy is clear about the kind of appointments he expects to approve: "Congress and the administration must work together to ensure that more women and more members of minority groups are appointed to the federal bench. A judicial branch in which only five percent of the judges are women, and only two percent of the judges are black, is unacceptable."

No appraisal of the senator from Massachusetts is complete without looking at his hyperactive staff in action. A Kennedy press conference, with every move and nuance cleverly orchestrated, shows the skill of his staff.

Last August, Sen. Kennedy called a press conference to show his displeasure over White House handling of a proposed national health insurance plan, a project long espoused by the senator. To impress the Kennedy message on President Carter, the senator's staff had him surrounded on the podium by an array of farm, church, and labor leaders, including AFL-CIO President George Meany.

### All the frills

In January, when the senator unfolded his plans for a trucking deregulation bill, there was another Kennedy press conference with all the frills.

Highly visible around the senator were Ralph Nader, Esther Peterson, special assistant to the President on consumer affairs, and Alfred Kahn, chairman of the Council on Wage and Price Stability. And, to show the diversity of his support, the special guests also included representatives of the National Federation of Independent Businesses, the National Association of Manufacturers, and the American Conservative Union.

Sen. Kennedy set the stage for his assault on the trucking industry with a series of hearings last year when he headed the Senate Judiciary subcommittee on antitrust, monopoly, and business rights. Again, clever staff work behind the scenes was apparent.

Jack F. Steuber, Sr., vice president-sales and consulting for Nationwide Traffic Service Bureau in North Miami, Fla., received a letter from Sen. Kennedy in March, 1978, asking Mr. Steuber to appear a few days later before the subcommittee in Washington. The letter alluded to Mr. Steuber's wide "knowledge and experience with motor carrier rate-making practices."

### List of questions

On the day he received the letter, Mr. Steuber was also asked to send background and other pertinent information on the service bureau to the subcommittee. He also was told to submit a list of questions he might want to be asked.

Two days before Mr. Steuber's departure for Washington, a Kennedy aide called and told Mr. Steuber his appearance before the subcommittee

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had been canceled. The aide accused Mr. Steuber of doing a 180-degree turn on his testimony. Mr. Steuber was informed, however, that if he wished to change his testimony he could resubmit it, and he might be invited to testify at a later hearing.

"It was made clear to me that when they found out that what I was going to testify did not agree with what they thought I would testify they did not want to hear what I had to say," Mr. Steuber says.

Among other things, Mr. Steuber's testimony would have cautioned strongly against ending collective rate-making.

#### Written presentation

Dr. Andrew F. Popper, a professor in antitrust law at American University in Washington, D. C., recalls a similar experience. Last year, when he was teaching transportation law at the University of Denver, he offered to testify at a subcommittee hearing in Denver. The offer was accepted, and he was given 48 hours to prepare a written presentation on rate-making procedures in the motor carrier industry. On the eve of the hearing he was invit-

ed to the Denver hotel suite of two Kennedy aides to review his planned testimony.

"When they got to page five of my statement, I could tell they were turned off," Dr. Popper recalls. "I knew exactly what turned them off: my comments that if collective rate-making should be eliminated there would be a period of integration and concentration where a large carrier could compete successfully, but the smaller one would have a difficult time. This was not what they wanted to hear."

The meeting ended abruptly. The aides said Dr. Popper's testimony was too academic and they urged him not to testify.

"I was disappointed, of course, since I had spent so much of my time preparing the statement," he says. "They said they would be interested in hearing my point of view later, but not at the Denver hearing."

Dr. Popper, like Mr. Steuber, heard no more from the subcommittee.

The subcommittee's hearings in Chicago also show the kind of well-honed staging that often accompanies a Kennedy appearance.

Shortly before the Chicago hearing

got under way, an enterprising reporter for *Traffic World*, the authoritative transportation trade magazine, walked over to the witness table and picked up a copy of a document labeled, "Questions for Marovitz." The witness was Illinois State Rep. William A. Marovitz who, a few minutes later, spoke out strongly against collective rate-making by motor carriers.

Both the questions and answers had been prepared by the Kennedy staff, according to *Traffic World*.

#### No surprises

"This is standard procedure," Tom Sussman, subcommittee general counsel, told the magazine. "Witnesses always are interviewed before they are allowed to testify. We don't want any surprises. We go through a scenario of what will be covered. We try to find out what the person knows about the subject. When Sen. Kennedy asks questions, he likes to know what the answers will be."

Of the ten people who were invited to testify, only three—representing the motor carrier industry—spoke in favor of collective rate-making. Of the remaining seven witnesses, four were self-described consumer advocates, two were shipping representatives, and the tenth was Rep. Marovitz.

During the Chicago hearings, Sen. Kennedy conducted what was billed as an impromptu inspection of the South Water Market, a Chicago truck terminal center. He was accompanied by staff aides and a gaggle of television, radio, and newspaper reporters.

#### Three previous visits

Bruce Voigt, a reporter for *The Packer*, a Kansas City trade magazine, went along on the inspection. He picks up the story:

"Although the market visit gave the appearance of being impromptu, Kennedy staffers actually had visited the market three times before the day of the tour, discussing how to arrange interviews supporting Kennedy's view that regulation increases the cost to consumers.

"Kennedy's staff and others went through a dry run, timing stops and making sure that everyone involved was familiar with the path that Kennedy would take the next morning."

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The February, 1979, cover marks Sunset's golden anniversary as *The Magazine of Western Living* (although it acquired its

birthright from a predecessor Sunset which had been founded by the West's Southern Pacific Company in 1898).

The 1929 issue, the first under Lane family ownership, emerged barely ahead of the stock market collapse and the Great Depression. It would be 1938 before the new publication turned a profit—even a modest one—but the West and Sunset had begun the forging of a close and inseparable partnership.



# The close alliance of the West and Sunset Magazine has been one of the phenomena of these action-packed years.

As the West has grown and changed since 1929, so has Sunset. Its original service area of seven Western states is now thirteen states; the result of a progressive outreach into, first, the Territory of Hawaii, then Alaska, and more recently, the four Rocky Mountain states.

In the evolutionary process, Sunset's circulation, a meager 70,000 in 1929, has grown to 1.4 million, with a total reading audience of nearly 3.5 million pace-setting men and women, from the Rockies westward to Hawaii.

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The Lane era began with a recognition that the West is a unique circumstance, markedly different from the rest of the United States, not only in climate and geography, but in historical molding, cultural evolution, living patterns, and social perspectives.

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These are still the cornerstones, but Sunset additionally has become a moving force for conservation and preservation of the assets and attractions which make the West such an inviting place to live, or to visit again and again.

Thus, throughout these eventful 50 years, Sunset Magazine has written its pages for Westerners and Westerners only. We do have many subscribers outside the West, unsolicited by Sunset, but they pay a premium for their subscriptions. Sunset is not available on newsstands outside the West.

**Serving the Western family's interests is what Sunset is all about.**

Sunset readers know that when new conditions, new problems, or sudden emergencies arise, Sunset's editors will be on the beam with alert and practical responses. Coping with energy shortages and the drastic 1976-1977 drought are cases in point. On occasion, we have pulled major articles and even magazine covers off the press, in order to treat an emergency which occurred after our issue had been "put to bed."

Be assured, however, that Sunset does not have to have an emergency to be useful to its readers. Month in, month out, the magazine provides an enormous variety of helpful ideas for

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**"We are excited about the future."**

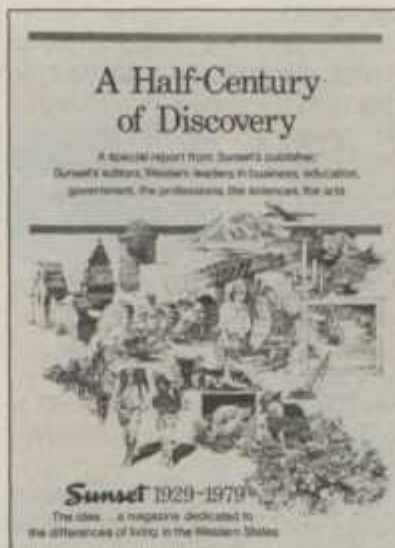
Okay. Nice birthday party. Where do we go from here? Chairman and Publisher Bill Lane said it for all of us, in a letter to Sunset

readers, enclosed in the February, 1979 issue:

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# Small Business Procures a PASSport to Profits



Roger Hanson and Joseph Kernan of SBA retrieve information from the PASS system to match up a small construction firm with a specific federal contract.

**L**ET'S PRETEND for a moment that a large aerospace company wins a contract from the National Aeronautics and Space Administration to build a ground support system for the space shuttle program. And suppose that the firm wants to subcontract some of the work to small businesses.

The procurement officer has trouble locating firms capable of meeting the company's subcontracting needs. The officer can make a singular effort to locate small firms, but that is time-consuming. Or he can make a PASS at the Small Business Administration.

#### A PASS?

It's officially known as the Procurement Automated Source System and consists of tabletop video display computer terminals keyed into a data bank containing information on small businesses.

The PASS system can unleash millions of dollars' worth of business to small firms in the form of contracts or subcontracts, says Joseph E. Kernan, acting chief of SBA's office of technology division.

The system is designed for those firms capable of and interested in doing business with the federal govern-

ment either as primary or secondary contractors. It matches government agencies with small firms when contracts become available.

All a small business must do to register with PASS is obtain a form from its regional SBA office, fill in the information, and return the form to the regional office. From there, the information will be keyed into the computer's memory banks.

SBA launched the PASS effort in 1977 after Congress decreed that development of the system should be one of SBA's major priorities.

Initial source information on small businesses was collected from the ten regional SBA offices. From there, the agency obtained information from other government agencies, bidders' lists, and membership rosters of small business associations.

SBA did a mass mailing of information and instructions about PASS to the small entrepreneurs it had listed.

#### Good start

To date, the PASS system has more than 8,000 small businesses in its computer memory banks categorized as manufacturer, research and development, construction, or service-related.

"We're off to a good start," says Mr. Kernan. "We're receiving nearly 1,500 forms every month from small businesses that wish to get into the system."

The goal is to computerize 150,000 small firms by fiscal 1982, with the capability to double that number if needed.

PASS will catalog not only what type of service a small business offers but also if the firm is owned by a female or a minority, how many employees it has and how many years it has been in business, its bonding level, location, telephone number, and operating radius, and whether it has been a government contractor or involved in international trade.

Looking at the aerospace firm's

problem, the system would work something like this:

The corporation's procurement agent would contact or be contacted by one of the regional office's subcontracting specialists—there are 20 in all. PASS would be introduced, the prime contractor would list its specifications, and the data would be entered into the computer. The computer would then list potential subcontractors.

#### A computer match-up

Hypothetically, the aerospace firm has listed its need for a female-owned construction firm, general contractors with a specialty in cabinetry, remodeling, and masonry. Preferably, this firm will have had other government contracts and will be located on the West Coast.

All these variables are keyed into the computer... two company names pop out. The aerospace corporation has what it needs, and the firm chosen has new business as a subcontractor.

"The best outside test of this system," says Mr. Kernan, "has been through the Department of Energy, which has PASS computer terminals located in each of its ten major procurement centers." The department, he adds, has been able to match up small firms with several of its prime contractors.

#### Regional offices

There are 21 terminals altogether—ten with the Energy Department, ten at SBA's regional offices, and one in the Washington headquarters.

The PASS system was developed for SBA by Systems Architects, Inc., of Randolph, Mass., a minority-owned small business that won the contract through competitive bidding. The initial operating cost was \$525,000 for program development, hardware, and personnel.

Mr. Kernan speculates that as the program grows, each agency involved in government procurement will one day have its own PASS terminal. □



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# Burroughs



# Business and the Arts Make a Perfect Match

Corporate encounters with culture benefit  
the consumer, the company, and the community

By Roberta Graham



Dan Sullivan, an affiliate artist sponsored by John Deere & Co., Moline, Ill., establishes rapport with 300 factory workers in Ottumwa, Iowa. Through private contributions to Affiliate Artists, Inc., such performances are possible.

*Art is the innocent carrier of the germ of freedom. The answer to why business should be involved with the arts can be stated shamelessly as plain, simple self-interest.*

Winton M. Blount  
President and Chairman  
Blount, Inc.  
Montgomery, Ala.

**I**T READS just like a good Gothic romance. After several decades of flirtation, business is finally courting the arts, and the relationship is becoming very serious, very quickly.

Art is now in the hallways, board-

rooms, and courtyards of business offices across the country. From Maine to New Mexico, corporate money is prodding the historic preservation of decaying cities, sponsoring local art shows of photography, sculpture, and crafts, and providing a stage for acting and dancing.

This was not the case 15 years ago. But then, after World War II through the mid-1960s, less than three percent of all Americans went to a ballet, an art gallery, a symphony, or an exhibit in any given year.

It's a reciprocal relationship: When

people want to, or begin to, take in the arts; then business becomes aware of their needs. Likewise, when corporate funds support art projects, then stockholders, consumers, employees, and other businesses become sensitized to the need for art. The end result is more art.

"I believe it's like bird-watching," says Peter G. Scotese, president of Springs Mills, Inc., a South Carolina manufacturer of textiles and frozen foods.

"If you know nothing about birds, you don't notice them. There are many things that people don't notice even though they see these things every day. Until now, art has been the victim of being seen but not noticed. And until recently, business has been notoriously indifferent to the arts."

## Increased support

Over the years, corporations have stepped up contributions to the arts. In 1967, the year the Business Committee for the Arts, Inc., was established to encourage corporate arts programs, the business community supported arts programs with \$22 million. By 1977, that figure had climbed to \$235 million and to \$250 million by 1978.

Anderson Clark, senior vice president of Affiliate Artists, Inc., in New York, attributes the previous lack of business interest to the country's recovery from World War II.

"After the second world war," he says, "Americans were most interested in building homes and businesses. They were interested in developing space and technology, and there was a tremendous surge in the popularity of sports. Now, America's interests are shifting in favor of the arts."



Nationwide polls conducted by the business committee show that the arts now rival or exceed sports in popularity. In 1977, more than 20 million Americans went to the ballet or some other form of dance performance; by contrast, 15.2 million attended professional football games.

Why the shift? Because, says Mr. Scotese, there is a tangible and necessary link between business and the arts that is beneficial not only to the company but also to the consumer.

#### Variety of etchings

Sitting in his New York office surrounded by a variety of etchings, a pastel water color, and an intrusive sculpture entitled *The Running Man*, Mr. Scotese speculates about why business is becoming so involved in the arts.

"It's a necessary relationship," he says. "Any business man or woman, enterprise or association has to be conscious of all environments. The arts environment is helpful in interpreting other segments of our society that business must understand."

Goldwin A. McLellan, president of the business arts committee, says the arts are essential to business. "Their contribution to business is as valuable as a bank loan, as law and order, as an educated and creative work force, as community hospitals, good roads, and adequate housing."

"In a very real sense, a business contribution to a museum, theater, or other art form is a business investment in the future; a legitimate business expense to ensure that the wellspring of creativity and talent remains adequate for business and industrial purposes. Support of the arts is not philanthropy nor corporate generosity; it's a prudent investment in survival and growth."

#### Not just a write-off

Yet executives must often defend corporate giving as a legitimate business expense. Some critics imply that businesses merely want to obtain a tax write-off. But an executive from a large New York firm with an active arts program disagrees. He points out that there are other projects more deserving than the arts to which corporations could give to obtain tax write-offs. Why would they give to the arts, he questions, when there is CARE, the Salvation Army, and other charities?

Says Mr. Scotese: "I think the criticism ought to be directed at those companies that do not give to the arts. And personally, I don't care what a compa-

NATION'S BUSINESS • APRIL 1979

## CANADA



Toronto, Ontario

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ny's ulterior motives are. The important thing is that it contribute."

Of the \$221 million donated to the arts in 1976, more than half came from less than one percent of the total corporate population. The business committee estimates that of 86,500 U.S. companies, 758 of the largest entities—with more than \$500 million in annual sales—gave \$111 million, while 76,686 provided the remaining \$110 million. Most of that money supported public radio, television programs, and museums, leaving a large portion of the arts unsupported.

To encourage greater participation, the business committee sponsors an annual awards program in recognition of outstanding corporate programs.

Winners over the past ten years include: Burlington Industries, N. C.; CBS, N. Y.; Chesebrough-Ponds, Inc., Conn.; Colorado National Bank, Colo.; Dayton-Hudson Corp., Minn.; Detroit and Mackinac Railway, Mich.; Walt Disney Productions, Inc., Calif.; Exxon Corp., N. Y.; IBM Corp., N. Y.; Mobil Oil Corp., N. Y.; Ruder & Finn, Inc., N. Y.; Sears, Roebuck and Co., Ill.; Springs Mills, Inc., S. C.; and Touche Ross and Co., N. Y.

Scene: The Museum of Modern Art, New York City. On exhibit is a collection of panoramic photographs taken by Jerry Dantzic with a turn-of-the-century Cirkut camera.

Scrolls of landscapes line the walls, some capturing the entire circle of the horizon, visually different than pictures taken with an ordinary camera.

#### Longtime partner

Springs Mills put on the exhibition with the National Endowment for the Arts. The company plans to sponsor other art exhibits this year.

Springs Mills has been pairing off with the arts since the 1950s when Col. Elliott Springs, then president, began purchasing art to use in the company's advertisements. This developed into a spring art show, which is now the largest nonjury annual show in the Southeast.

Winners of this show are sponsored by Springs Mills to travel throughout the South to display their works in various galleries. The company won a business committee award for this effort in 1970.

In addition to the Dantzic exhibit, Springs Mills also has an arrangement





PHOTO: MICHAEL BOAZER—IMPROVED

## Employers Orchestrate a Labor Day Musical

The performance was called "A Show For All People," but it was really a show of business support not only for employees but also for the arts.

Held the day before Labor Day last year, the performance by the Dallas Symphony Orchestra, the brass section of the North Texas State University Marching Band, and the renowned musical group, Up With People, was sponsored by the Dallas Chamber of Commerce as a salute to area employees. Local businesses bought tickets to the show for their employees. Proceeds went to the performers.

About 95 of the area's businesses supported the effort, generating \$68,000 and an audience of 20,000 in the Cotton Bowl.

"The work ethic is a basic characteristic in Dallas," says David Fox, chairman of the board of the Dallas chamber. "Our economy can be directly traced to conscientious employees. We felt that the employers of Dallas would like an opportunity to recognize their workers. The response proved overwhelmingly that we were right."

Business participation accounted for most of the \$68,000, the Dallas chamber says. After expenditures, the performers each received a donation of \$3,000.

Mary C. Crowley, president of Home Interiors in Dallas, purchased 1,500 tickets for the show. Ms. Crowley has only 600 employees. The rest of her tickets were donated to local churches, high schools, and a Dallas orphanage.

J. Kevin Murphy, president of Trailways, Inc., in Dallas, says it was "just a fine evening . . . the show was exciting, and the fireworks fabulous." His firm purchased 3,000 tickets for its 1,300 employees.

"I think it is a great thing that business has done for employees and for the arts in Dallas," he says. "And I think it will become an annual affair."

Business has actively supported the John F. Kennedy Center for the Performing Arts, located in Washington, D. C., since its opening in 1971. Last year, business donated more than \$1.3 million through the center's Encore Fund. Contributions should exceed \$1.5 million this year.



PHOTO: MAUDE CASTELLON

Joan Mondale, chairwoman of the Federal Council on the Arts and Humanities, says business support of the arts is growing rapidly. "I think business has caught onto the value of art and beautiful surroundings." Mrs. Mondale stands before *Prometheus*, one of the works exhibited in her home, the residence of the Vice President.



with the Metropolitan Museum of Art and the Guggenheim Museum under which the company adapts their textile designs for bed linen patterns.

"We have paid the Metropolitan Museum of Art more than \$1 million in royalties so far," says Mr. Scotese. "It has been a highly beneficial program for both business and art."

"Millions of Americans have in their homes adaptations of some of the Met's most exquisite and rare textile designs. Although our arrangement with the Guggenheim is new, we expect that it will prove just as profitable," he adds.

### Special wrinkle

Quite frequently, business works in tandem with the National Endowment for the Arts through its challenge grants and special treasury fund.

Challenge grant money is awarded to worthy projects which must raise three times the amount of the grant. Money from the treasury fund, which administrators call "a special wrinkle in the fabric of the endowment budget," is not offered until nonfederal money has first been put up.

Once private donations are secured, endowment money is added, making a one-to-one match. That amount must be doubled by the grant recipient. The final mix is three parts private funding to one federal dollar.

The endowment, along with the Federal Council on the Arts and Humanities headed by Joan Adams Mondale, believes that private sector involvement with the arts is crucial.

"It's a very intimate relationship," Mrs. Mondale emphasizes. "Business support is a vital ingredient... and there is a need for cooperation among local, state, and federal governments with business regarding the arts."

### Art gallery at home

The Mondale home—the official residence of the Vice President located on the grounds of the Naval Observatory in Washington, D. C.—is bedecked with art on the walls, on bookcase shelves, on the floor, on tables, and on fireplace mantels. Mrs. Mondale has converted her home into an art gallery displaying the works of living American artists, sculptors, crafts people, and photographers. Current works are on loan from various museums in the Northeast. Some of the artists are unknown; other have achieved international fame.

Standing before Helen Frankenthaler's intriguing multicolored acryl-

ic painting entitled *Prometheus*, Mrs. Mondale says that business can take a lesson from what the government is doing to support the arts and vice versa.

"The General Services Administration, for example, has agreed that one half of one percent of all the building or renovation costs of federal buildings will go for art. Business can do the same thing... I know that some industries already do this."

"We held a bipartisan fund-raiser for women candidates, at which we had a photography sale. An executive from Johnson & Johnson in New Jersey told me the company was building a new plant. He bought a portfolio of photographs to hang in offices in his new plant. Now this is not a new idea, but buying original works of art instead of reproductions is."

"Businesses could set aside a certain percentage of building costs for art. If they build a new plant, they could allocate half of one percent for art—stained glass windows, mosaic tiles, wall hangings, tapestries, paintings, sculptures, or fountains. Whatever it is, it will be important."

Instead of buying paintings and

artwork for offices, Touche Ross and Co., a national accounting firm, sponsors a program called Prints for Patients, which donates works of art to hospitals.

For example, a man on the 14th floor of a New York hospital is recovering from major surgery. He's alone in his room with a small television set and four blank walls. Along comes the art cart, pushed by volunteers and loaded with original prints drawn, painted, or photographed by living American artists—all numbered and signed.

The patient can choose from among landscapes, seascapes, still-life shots, figured prints, or action pictures. The art is hung in the patient's room for the duration of his stay.

The man on the 14th floor wants an action painting, but the woman down the hall prefers something calmer. It's all on the art cart.

The Sears-Roebuck Foundation takes its art to the people—in community and church groups, union halls, prisons, hospital wards, and homes for the elderly—all across the country.

The foundation works with Affiliate Artists, Inc., a New York group that

# CANADA



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PHOTO: MICHAEL BLAUER—GAMPHOTO

The New York City Ballet is widely recognized as one of the country's finest dance troupes. According to a 1977 poll conducted by the Business Committee for the Arts, Inc., more Americans attended the ballet or some other form of dance performance than attended professional football games.



PHOTO: DEL BANCHE—GAMPHOTO

While the Pabst Brewing Co. of Milwaukee sponsors a summerfest every year, other firms support the arts by donating private works to traveling exhibits. "Critics of corporate giving oversimplify our motivation," says a Mobil Oil Corp. spokesman. "We do not expect to be loved for our support of the arts."

## Culture Shock From Proposition 13

June 6, 1978, was a day of triumph for California voters fed up with ever-increasing property taxes. It was also a day of despair for the state's arts organizations.

The passage of Proposition 13 meant that state and local governments had to tighten the fiscal belt. And in many cases, first to feel the pinch were arts groups.

The California Arts Council, a state agency that provides grants for programs and individual artists, had its budget cut by 60 percent. Other state and local museums and galleries found that budget cuts would deprive them of money needed to support additional exhibitions.

To make up for Proposition 13 budget cuts, businesses in Los Angeles have donated legal, technical, accounting, and fund-raising skills to art organizations.

Similar tax and spending limitations were passed in Michigan, Colorado, Oregon, and Idaho, prompting Maynard Jackson, mayor of Atlanta and chairman of the committee on the arts for the U.S. Conference of Mayors, to suggest that state agencies go easy on arts budgets.

"All too often in times of budgetary constraints, appropriations for the arts seem an unnecessary frill," he says.

"We believe that money for the arts, rather than being an unnecessary, easily-cut expenditure, is an investment that generates further revenues upon which future city vitality depends.

"The arts not only create beauty, they create jobs," the mayor says. "Businesses prefer to locate in communities with a rich cultural life.

"Try to imagine your community with no music, no dance, no poetry, no theater, no sculpture or painting. You have to imagine, eventually, industry and jobs are gone, too. And after that, the people.

"You enrich your community when you support the arts, and you have a good time doing it."



recruits talent and lends it to businesses who are willing to sponsor "informances" rather than performances.

The purpose of the informance, explains James L. Podany, vice president and executive director of the foundation, is to take the art form to the people, to personalize the production, and to break down the barriers between the stage and the audience.

#### Career development

An informance is free to the public. The foundation contributes \$125,000 for the artists, and that amount is matched by a grant from the National Endowment.

Mr. Podany says the foundation's program provides young American artists with recognition and career development they might not otherwise get. The foundation also provides money for educational films and books on art. Sears as a company has its own arts programs.

Affiliate Artists also receives wide business support from 22 corporations such as Westinghouse Corp., U. S. Steel, and Allegheny-Ludlum, as well as five other foundations, and the National Endowment. This year, the group is operating on a million and a half corporate-foundation dollars. Thirteen years ago, there were only \$10,000 and one corporate supporter.

"We estimate that we have reached about eight million people through our informances," says Mr. Clark. "That averages out to \$1.15 per person per performance. Without that support most of those performances would not have happened."

#### The five percent club

Scores of other companies, small and large alike, are joining those who have actively supported the arts. A group of 23 companies in Minnesota has formed the five percent club—they contribute five percent of their gross profits before taxes to the arts. Ruder & Finn, the New York public relations firm, has a fine arts division that specializes in business-arts matchmaking.

More business committees such as the Arts and Business Council in New York and The Corporate Fund for the Performing Arts at the Kennedy Center in Washington, D. C., are springing up to raise corporate money and consciousness.

In addition, art alliances in three major cities are coordinating fund-raising drives and conferences such as the one held in Boston, Mass., several months ago on the energy crisis in mu-

NATION'S BUSINESS • APRIL 1979

## CANADA



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seums, art galleries, and other public places.

Scene: A Saks Fifth Avenue store in suburban Cleveland. Liberace, the perennial pianist, strolls through the crowd. He stops to chat with a group of people invited to attend the benefit opening. About 3,500 people are there. The proceeds go to four cultural organizations in the Cleveland area.

In New York, Carol Channing, charming comedienne, greets business executives at a recent wine and cheese party sponsored by the Arts and Business Council. The purpose of the event is to show the executives how they can help sponsor the arts.

#### Educational experience

"For business people to understand the arts, they must see and experience the flavor and excitement of the arts. It's an educational experience," says John E. Skuce, a senior associate with Cultural Resources, Inc., a nonprofit group based in Washington, D. C.

Through one of its programs, Cultural Resources brings together corporate officers, art critics, and executives in charge of company philanthropy for an evening of chamber music, a separate

night at the ballet, and another evening of theater or plays. The cultural immersion helps the group to explain the direction and needs of the individual disciplines and just what corporate directors can do to help.

"The art world is handicapped right now," says Carl F. Stover, president of Cultural Resources, "because there are no long-standing numbers to illustrate just how much has been spent in support of the arts."

"The National Endowment budget and state art council budgets are just the tip of the iceberg. It's hard to increase giving if there is nothing to show for past contributions."

"What is needed are economic impact studies that would compare an active arts program in a company or in a community with an artless one," he suggests.

"An arts-business relationship is necessary for the economic survival of a company and the cultural survival of the environment."

Advocates of such relationships predict misfortune for the business that ignores the arts. Like Romeo and Juliet, one cannot live long and prosper without the other. □



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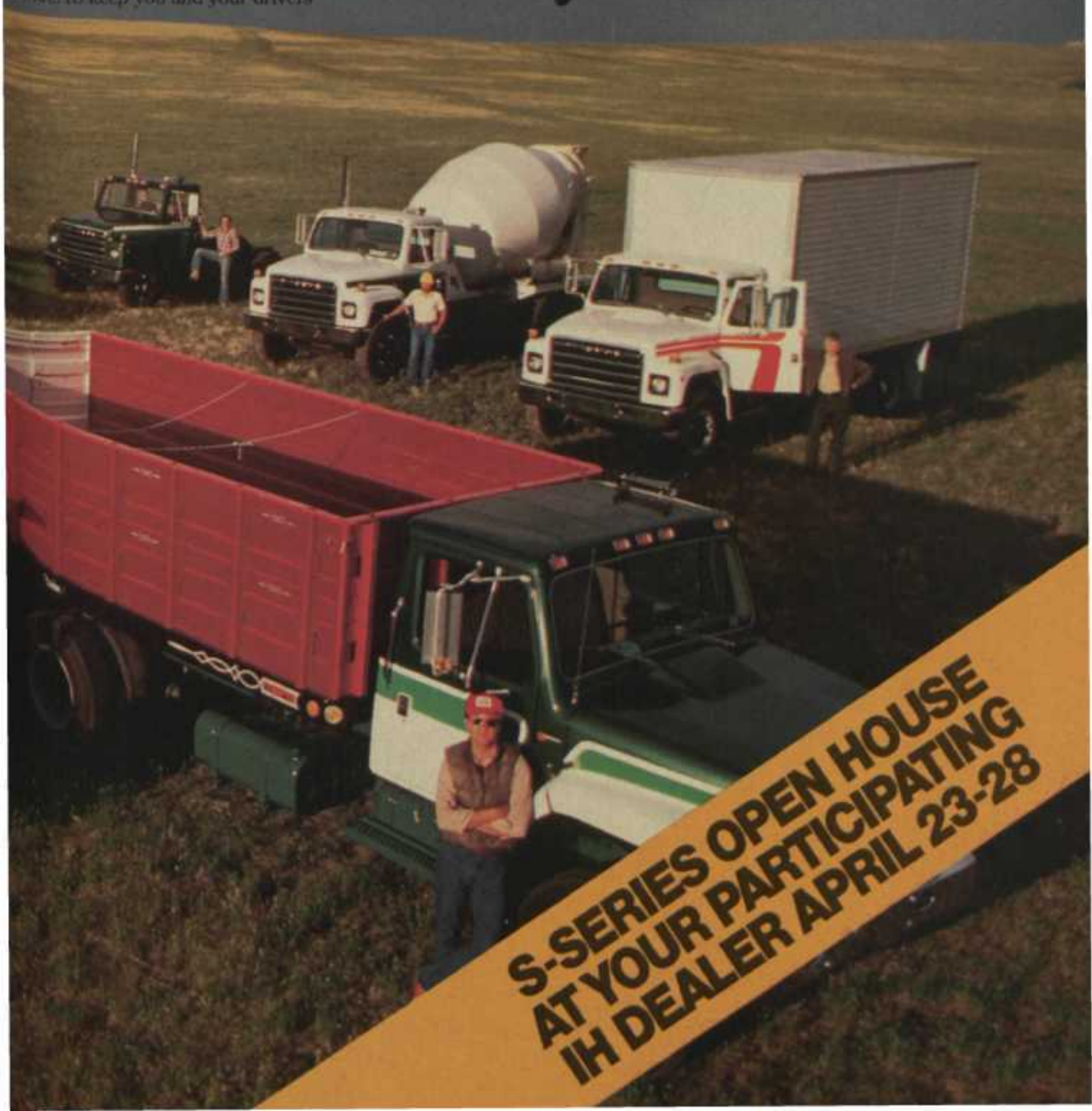
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# DISCO DANCING: to the tune of billions

The sounds are hot, the steps are lively, and the profits are beautiful

**I**N THE OPENING SCENES of the box-office blockbuster, *Saturday Night Fever*, hero John Travolta tries to scrape up enough money for a fancy new shirt. His problem is symptomatic of the discotheque business—it de-vours money.

But for those who cater to the new dancing mania, the cash registers are stuffed with profit. In just a few years, disco has exploded into an \$8 billion industry.

Lighting and sound companies, record companies, clothiers, and, of course, the disco owners themselves have re-lived the passing fad of the 1960s into a lucrative business. New discos have been opening across the country, spreading inland from the coasts. Many nightclubs and larger bars have simply added disco equipment.

What is disco? For anyone who has not yet been exposed to the epidemic, disco is simply a variety of dances done to recorded music and frequently accompanied by special lighting and visual effects.

Although the audio system of New York's famous Studio 54 cost \$300,000, the average club spends from \$2,000 to \$8,000 on its sound equipment. The cost of lighting also varies a great deal. Xenon, a New York club about the same size as Studio 54, spent half a million dollars on lighting, says Robert G. Lipp. He handles marketing for Light Lab, the company which did Xenon's lighting and also provided much of the equipment for *Saturday Night Fever*.

An average small club usually spends from \$5,000 to \$15,000 on lighting. Lighted floors are extra. A floor 16 feet by 32 feet would cost close to \$18,000, excluding installation. H. Victor Carlson, a representative of City Lights, a theatrical lighting company in Washington, D.C., says business has boomed because of disco. "But," says Mr. Carlson, "we were in the theatrical lighting business before disco became popular, and that is still our main business. We're not depen-

dent on the fad, but it's certainly keeping us busy."

Brian Edwards, president of Wavelength, Inc., of Culver City, Calif., is perhaps even busier. Like City Lights, Wavelength handles many other kinds of sound and lighting jobs.

"We got into the disco business

By Mary Tuhill





Dancers and celebrity-watchers at swank Studio 54 disco in New York City. The club's elaborate multicolored, pulsating lighting system cost half-a-million dollars. Studio 54's owners spent another \$300,000 on the audio system to produce the distinctive disco beat.

PHOTO: BOB D'AMICO—GLOBE PHOTOS

PHOTO: BOB D'AMICO—GLOBE PHOTOS


CHARLES FERGUSON—GLOBE PHOTOS



A couple at The Library in Bethesda, Md., tries out a move made popular by *Saturday Night Fever*; intricate dips and steps are performed by most dancers who enter disco contests.

Olivia Newton-John and Allen Carr show how it's done at a premiere party for the cast of the musical, *Grease*, given at Studio 54 last year.





Thousands of dollars worth of overhead lighting equipment, mirrors and mirror balls, and other special effects create the disco atmosphere for dancers at a New York City club where more sedate dancing is in style again.

For most dancers, disco is a costume party, and in some clubs, almost anything goes. Those with dress codes tend to enforce them only on crowded weekend nights, "so we don't get blue jeans with holes in the knees."



Although disco has a definite style, every imaginable variation can be seen on any club floor. The music tends to encourage individual interpretation.

The nerve center of Studio 54, where operators create constantly changing lighting and sound effects to vary the atmosphere on the disco floor.



about five years ago," says Mr. Edwards. "Now, things are speeding up, and clubs are asking for more complex equipment."

He estimates that one of the company's biggest jobs—renovating the old Hollywood Palace in Los Angeles for a disco—will run close to a million dollars. However, he says, "right now the company is doing its best business in the Midwest and the South."

In addition to clubs in the United States, Wavelength recently signed contracts for discos in Switzerland and Australia.

#### Worldwide boom

"We have been getting a lot of European business," says Mr. Edwards. "We have the latest, most sophisticated equipment, and now that they have a good exchange rate, the Europeans are buying it."

He predicts a continued disco boom, at least for the next year. "We doubled our disco business in 1978, and this year we expect another 50 percent increase over that."

The demands have been so great that manufacturers and suppliers of disco equipment frequently have trouble filling orders. Mr. Carlson says that most items now require a 30 to 60-day wait. Among the items in greatest demand are \$450 fog-making machines and \$90 mirror balls.

One reason for the increased demand is that disco is not confined to clubs. City Lights has disco on wheels—a van equipped to take the disco atmosphere almost anywhere. For fees ranging from \$1,200 to \$2,300, the company has produced an evening of disco in hotels, department stores, and private homes.

#### Disco rec rooms

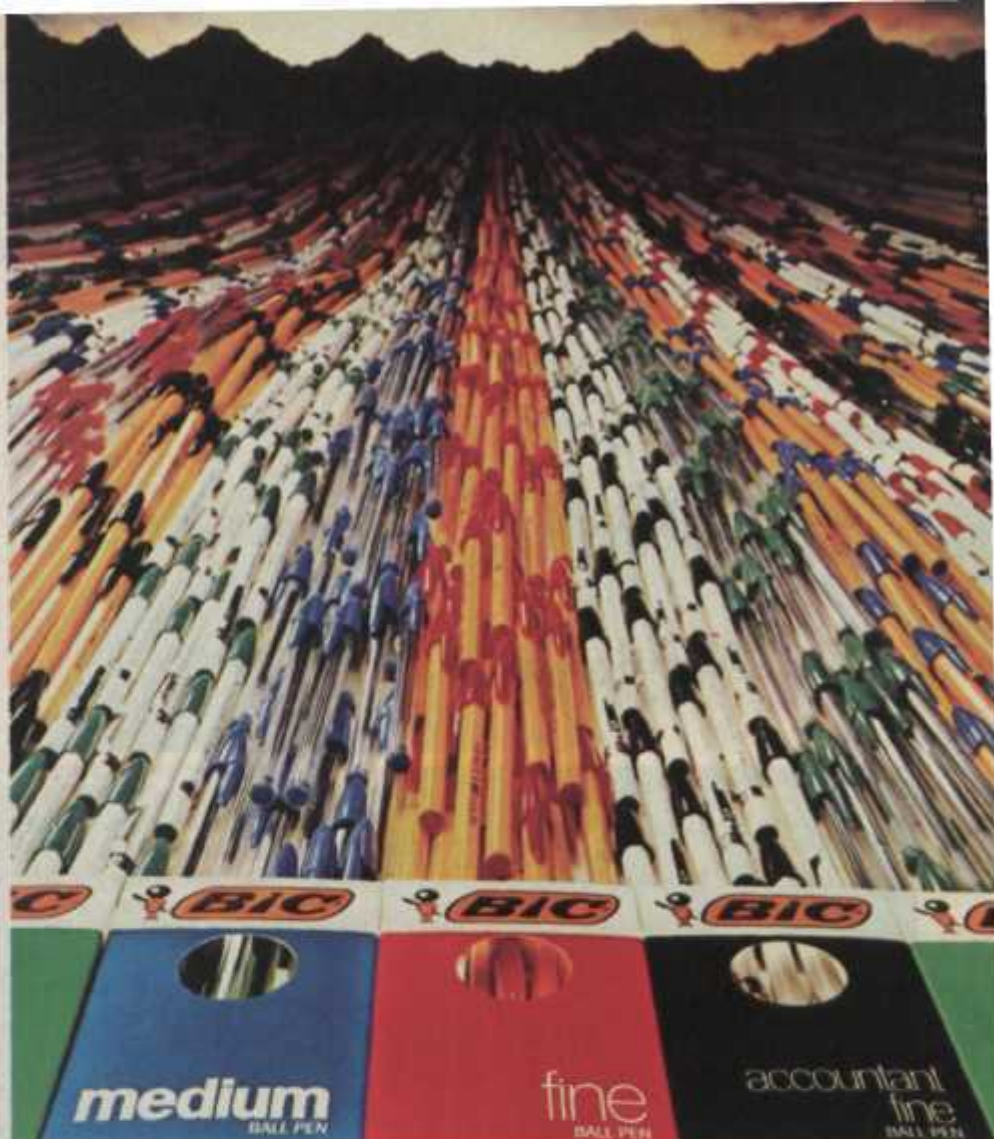
Some people have gone a step further and turned their recreation rooms into home discos. City Lights recently provided a Washington woman with a small home dance floor, lights, and a light control panel for \$4,000.

A couple of mail-order gift houses got into the swing just before Christmas and offered home disco kits for several thousand dollars.

Customers also come back for additional equipment.

"Disco is a show," says Mr. Carlson, "and you have to keep changing it a little all the time to keep people interested."

Dancers agree that it is a show, and they want to look their best, so many of them take lessons. For the dance



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PHOTO: RON GALELLA—UPI/PHOTO

Would-be patrons gathered outside New York's Studio 54. Most noncelebrities wait for hours, and many never get in. But the hope of dancing there and the challenge of looking interesting enough to be admitted keep many coming back nightly.



A dancer tries her skates in the latest version of disco. Some skating rinks are pinning hopes of a revival on this new trend. And disco owners expect youngsters to move on to the club floors as soon as they are old enough to be admitted.

PHOTO: ANDY LEVIN—BLACK STAR

studios, that has been a bonanza. New studios have opened, and older ones have increased their staffs. Vic Dauterive, longtime Washington dance teacher who taught former First Lady Betty Ford to do the Hustle, says he had to increase his staff of seven to 16 to handle the business.

"Even so, I have a waiting list of people for lessons," he says.

Another part of looking right, of course, is clothing. The three-piece suit for men is a must for disco, and most stores have a selection of disco fashions for women.

One shoe manufacturer even plans to market Discoshoes at about \$100 a

pair. The shoes will have flashing lights in their clear plastic platforms that will blink on and off to the rhythm of the dancer.

"Disco has completely changed the clothing look," says Pamela McCauley, who does merchandising for Hecht's department stores in Baltimore and Washington. "It has taken women away from the Annie Hall look and into more body-revealing clothes, and it has people dressing up again."

"Disco really gave us a boost," she says, "but it may be past its peak. Or it may just be taking another direction. I think the new thing will be roller disco. Macy's in New York just opened a

roller disco shop which carries skates with the new polyurethane wheels, sequined kneepads, and skating clothes. I think that's where fashions are heading."

Mr. Lipp agrees. He says Light Lab is equipping about 20 roller rinks a month, and many of the larger disco clubs now set aside one night a week for skaters.

"Chances are this will attract an even younger and more agile crowd," he says. "But this is a direction in which disco already seems to be moving."

### Kiddie discos

Several large amusement parks have started what Mr. Lipp calls ice cream discos. The idea has worked well, he says. It gives the children something to do instead of wandering off to get lost, and parents stay longer in the park.

Michael O'Harro, manager of a popular Washington disco called Tramps, agrees that the coming thing will be roller disco.

But if he should get into that aspect of disco, he says, it would be at a rink, not at Tramps.

"Roller disco will attract a younger crowd that wants to get out and exercise," Mr. O'Harro says, "but it won't replace the discotheque; that will still be here. For one thing, it's simply not as easy to meet people and talk when you are on skates as it is over a drink."

And that is just the kind of place Ron Newdell had in mind when he created The Disco Works, to provide turn-key disco operations for hotel and restaurant chains. Mr. Newdell, president of Accurate Sound International, Inc., a multimillion-dollar audio service firm in Redwood City, Calif., says the first contracts for the new firm will be a very posh restaurant in Mexico City called Les Bons Vivantes and a new chain in California's Marin County called Charlie Boltons.

### New record market

Whatever direction disco takes, it will probably continue to help the record industry.

"We're making more and more disco products and paying more attention to it," says Robert Heatherly, a branch manager for RCA Corp. "It's getting more popular at a time when people expected it to die out."

Disco also has influenced record size. "People who go to discos like to be able to dance to the same music at home," says Mr. Heatherly. "They want the



same 12-inch singles we used to sell only to discos and radio stations, so we have started producing more of them."

And disco has meant new customers. "Record sales are up across the board," says Fred Morris, manager of Kemp Mill Record Shops in Washington, D. C. "The people who usually buy records are continuing to buy, but a lot of people who seldom buy records have started coming in to get the tunes they like to dance to. Sometimes for a party they'll buy a dozen disco albums."

Bill Wardlow, an associate publisher of *Billboard Magazine*, was among the first to see what disco could do for the record companies. Five years ago in England, he noticed that records were becoming hits without the traditional radio exposure because they were played in the discos.

The larger record companies, he says, were slow to move into the disco

market. That resulted in almost overnight success for several small companies that quickly turned out disco tunes.

Radio also hung back, says Mr. Wardlow. "At first the stations saw the discos as competition in creating music favorites. Now, most stations play some disco music, and some have switched to an entire disco format."

#### All-American craze

He says disco will probably be going strong through the 1980s. "The mainstream of America is now interested in disco, and soon the entire country will be in on the roller disco craze."

Record companies also are involved in a race among Broadway producers to see which of three planned disco musicals will come out first this spring. Stephen Leber and David Krebs, who seem confident their show,

*Discotheque*, will be able to open first, plan to offer theater patrons more than a show. "We'll have dancing on stage after the show," says Mr. Leber.

Also in the works are *Gottu Go Disco*, produced by Jerry Brandt, and *Holy Moses and the Top Ten*, which is being put together by Hal Grossman and Robert Fournier.

"It's based on the life of Moses and set in a disco," says Mr. Grossman.

And, lest the momentum slow down outside New York, *Saturday Night Fever* is being readied for a wider audience. Objectionable scenes and language are being cut from the original movie to obtain a PG rating and a whole new market.

Mr. Wardlow also predicts an expansion in the export market. "The Voice of America," he says, "is doing a one-hour show on disco for television presentation in Russia and China." □



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# The Charter Saga in Which One Branch Leads to Another

By Priscilla Anne Schwab

**R**AYMOND KNIGHT MASON is really laid back. When informed of this, he smiles quizzically and says gently, "if you say so."

It's true; this mellow-mannered entrepreneur is aptly described in today's vernacular—laid back (adj.) unassuming, unhurried, philosophical, aesthetic, a stranger to anger, easygoing, keenly analytical, personable.

From a family-owned lumber yard in Jacksonville, Fla., Mr. Mason has constructed an eclectic conglomerate of oil, insurance, real estate, and media.

Today, the \$2 billion Charter Co. consists of the Charter Oil Co., by far the largest division with 1978 revenues of \$1.8 billion; Chartcom, Inc., which publishes *Redbook* and *Ladies' Home Journal* among other magazines, prints all or part of several national magazines in Dayton, Ohio, broadcasts over five metropolitan radio stations, and maintains 50 million subscribers' addresses in Des Moines, Iowa; and Charter Insurance Group, which has \$1.2 billion worth of life insurance in force in 29 states.

## Almost busted

For a long time, however, Mr. Mason was only a small businessman. And at one time, he was almost a busted small businessman.

When Raymond Mason came home from Chapel Hill after four years of

economics at the University of North Carolina, his older brother was already firmly established selling the family's lumber. So Raymond took over the nascent business of financing the builders who bought the lumber.

The Knight family had been in Jacksonville for five generations—Mr. Mason's grandfather, for whom he was named, had been mayor in 1893—and the lumber yard had been going since 1919.

"The family business was a nice head start," says Mr. Mason, who within ten years had built up the financial end of it to \$100,000 annual profit. Unsatisfied with half a loaf, Mr. Mason soon found a little mortgage and real estate investment company called Charter that he picked up to finance the people who were buying the homes the builders were putting up.

Along with the company came the acorn symbol, Charter's motif to this day. "We just inherited it," says Mr. Mason, "and it seemed worth keeping. We didn't want our family name on the business. Why? Because those people with a low profile have a higher quality of life, I think."

Probably so, but before there was quality, there was quiet desperation. A big developer on Cape Canaveral, whom Mr. Mason had financed, went broke, leaving the Charter Co. with 250 unfinished houses and a few million dollars in debt to local banks.

"I forget whether the interest was \$50,000 a week or \$50,000 a month," says a friend who lived through the crisis and later prospered. "Whichever, Raymond couldn't pay it. He had trouble meeting the payroll a couple of

times and had to put up his personal money.

"It would have been easy to declare bankruptcy, but Raymond wouldn't hear of it. He visited the banks he owed almost daily and persuaded them to wait for their money. Then, he took over a piece of property the broke developer owned on the Banana River and drained the land so it could be developed residentially," says the friend.

"I couldn't believe it. Here he was facing financial disaster, and he was paying \$15,000 a day to pump water. He said it was the company's only asset and had to be developed because sooner or later the environmentalists would prevent all building in that area.

"He was right. The company made a lot of money on that property. And the banks all got paid off. But I wouldn't have gone and dredged."

## "Little bitty bank"

Once that crisis had receded, Mr. Mason decided he really needed his own bank. Up for sale was the Jacksonville National, "a little bitty bank" to which he could move the mortgage servicing and through which he could make loans.

"In the midst of adversity," says another longtime friend, "Raymond seems to bloom. His imagination is fueled by what others would think of as failure."

"Raymond has a firm idea of what he wants to accomplish," says a business acquaintance. "And he has an agile mind that will figure out ways to accomplish it. He does things that peo-

The priceless Persian rug that hangs in the stairwell of Mr. Mason's home has 29 cartouches and tells the story, in poetry, of the pleasures of a garden. The rug came with Epping Forest.





Stone sculptures of acorns and owls top the walls of the formal gardens and line the walkway out to Raymond Mason's boathouse office in the St. John's River. With Mr. Mason are his wife, Minerva, and daughter, Varina Druce.



This waterwheel was used in the 1940s to aerate the sulfur-ridden well water at Epping Forest, which is now on city mains.

ple don't think are doable because he doesn't accept the fact that these things are not doable, not if he wants to do them, and they are worth doing."

A classic example is the way Mr. Mason ended up in the gas station business because he wanted to start making commercial loans. From a banking colleague he heard that George Getty, who had just finished building a new refinery in Delaware, wanted to expand his Tidewater Oil Co. and was looking for a distributor in Florida. Mr. Mason had two college friends who had always wanted to run their own business, so he called them and they all went to see Mr. Getty.

#### Import duties

The idea was that Mr. Mason would finance the building of the gas stations and the friends would distribute the gas to dealers. The partnership was proceeding apace, and "my friends quit their jobs—they were both in textiles—and moved to Jacksonville with their wives and two or three little children apiece," says Mr. Mason.

"Then the government clamped import duties on foreign oil, and Mr. Getty junked his expansion plans. No more Florida distributorship. So here were my two friends with no jobs, new

mortgages, and all these little kids."

There was only one thing to do. Mr. Mason financed the construction of a service station, and the two stranded friends started running it; pumping gas for two cents a gallon below the brand-name price and selling milk and bread and other necessities a family runs out of at the most inconvenient time. This venture gradually built up to a chain of about 60 discount service stations throughout the southeast.

"Raymond Mason," says a lifelong friend, "is the kind of person who would mortgage his home for a friend."

Meanwhile, the Charter Co. went public in 1963 and began growing "with all its eggs in one basket," as Mr. Mason puts it, having merged his gas station interests, bank, mortgage company, and real estate holdings. Sales growth had reached the \$16 million mark when Charter began negotiating for a \$70 million acquisition, which "anybody would call highly leveraged."

How does a company the size of an acorn swallow a mighty oak like Signal Oil? Very cautiously, by pruning away unprofitable operations, fertilizing the management structure with carefully chosen people imbued with the mystique of oil, and grafting on

both vertical and horizontal acquisitions.

Transplanting the oak was a saga in itself. Mr. Mason had been out in California working on the possible acquisition of the Irvine ranch. The deal fell through, but he heard that Signal Oil wanted to shed its Houston refinery and marketing division. Mr. Mason saw a possible match; he would then have a refinery to produce gasoline for the chain of filling stations.

"I said if they would take a ten-year note for half the \$65 million price and 25 percent in long-term equity of our preferred stock, plus 12.5 percent cash closing with the other 12.5 percent in four or five months, then maybe we could swing it," Mr. Mason recalls. "They said they would, and we did."

#### Not a plunger

Remarks another friend: "People might think Raymond is a plunger. He's not. He can analyze data faster than a computer, and he cuts through all the entangling details."

Part of the Signal arrangement was a slightly less than one percent interest in Iran's daily oil production, and Mr. Mason used that to borrow money for a down payment on the Signal properties.



"I went to Gulf Oil and said we want to buy this refinery, and if you lend us the cash, we will agree to buy all the crude we need from you," says Mr. Mason.

"Fortunately, the fellow I talked to knew an awful lot more about the oil business than I did. He told me that crude oil was easy to sell, but sweet crude was not that easy to get, and that Gulf would take half our interest in Iranian oil in return for the \$8 million cash. Well, it worked beautifully. They made money on it, and we made money on it. And we got our Iranian oil interest back in the end."

### Convolved venture

Charter's venture into communications was similarly convoluted. It began in 1974 with a small book publishing company, followed, willy-nilly, by the Dayton printing plant, two major magazines, five radio stations, a dozen special interest journals, and "a partridge in a pear tree," says Mr. Mason, jokingly.

"Sometimes, it seems that we no sooner get active in a business, than someone wants to offer us the lot next door. It wasn't until last year that we really got all the pieces of the communications group together under one president, all moving in the same direction."

Charter's three divisions, oil, insurance, and communications, are now in the middle of their separate five-year plans, which call for an annual 15 percent growth in earnings. "We believe, of course, that our people are our most important asset. We also believe in autonomy with accountability. Between those two is a whole lot of room for growth. If you don't let people do things, they never really grow," says Mr. Mason.

### Filling the niches

In all three areas, the Charter companies are experts in niche-filling. "The big companies cannot do everything. We try to specialize in areas the giant companies don't like, that are not profitable for them to tend to."

But, says another friend, "Raymond is a practical person. He will pursue a venture to the point where it is no longer worth his time and effort, and then he will back off and devote his attention to something else that is interesting. He can live with himself if a deal collapses. He doesn't like to lose, nobody does, but he just goes on to something else."

The Masons live on a 50-acre estate



Meeting with the chairman in his light and sunny office is a pleasant interlude for Jack T. Donnell, president, Charter Oil Co., and Mr. Mason's son-in-law, J. Dix Druce, Jr., president, Charter Insurance Group. Getting comfortable is Rosie.

called Epping Forest that was designed by the late Alfred I. du Pont and built in the late 1930s by Mr. du Pont's brother-in-law, Edward Ball, the chief trustee of the du Pont fortune. Mr. Ball is Mr. Mason's mentor and, through the du Pont trust, a principal stockholder in the Charter Co.

The nine-bedroom, Spanish-style mansion has hosted many heads of state as well as business leaders, including the now-exiled Shah of Iran, former President Ford, and California Gov. Jerry Brown.

The storybook estate nestles snugly in a curve of the St. John's River, protected by an enclosed double harbor and towering cypress trees that whisper memories. Inside the house, invaluable antiques form a subtle collage with fine furniture and countless mementos and paintings to produce a comfortably lived-in look.

One hundred feet out in the river, Mr. Mason has glass-enclosed the top deck of a boathouse to serve as his office. In this sunnily serene setting, he talked of pragmatic acquisition, business philosophies, and the future of Charter.

**What is the relationship between oil, insurance, and communications?**

It's a quantum leap from our refinery in Houston to a quiet insurance office, so there is no apparent rationale. But there is a common denominator in running a little retail gas station and publishing *Redbook* magazine, and that is people. We provide services of one kind or another to people.

**What sort of acquisitions do you look for?**

We look a lot, and we look very, very carefully. In a field that we are interested in, if we can get something at the right price that fits our business, we will try to buy it. In a field that doesn't interest us, like owning a hotel in Las Vegas, we wouldn't care what the deal was. We're now involved in negotiations with the Carey Energy Corp. We have signed an agreement in principle to acquire 80 percent of Carey, which is a major producer of fuel oil on the East Coast. They sell primarily to utilities and industrial users, and they have a 500,000-barrel-a-day refinery in the Bahamas.

**But how do you decide what is interesting?**

One thing seems to flow from another. In the beginning, I made all the acquisitions myself. I was on the front



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Architectural Digest	7	5	2.9	55	22
Sports Illustrated	8	9	18.1	19	7
Family Circle	9	7	15.1	22	8
Travel & Leisure	10	—	3.1	44	30
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Vogue	12	6	5.7	35	24
<b>Nation's Business</b>	<b>12</b>	<b>—</b>	<b>2.3</b>	<b>43</b>	<b>27</b>
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.....Not Surprising





Mr. Mason is a frequent visitor to the Charter refinery in Houston, which employs about 650 workers, including process supervisor Lloyd Grubbs, whose jacket advertises the company. In the background is Ralph Schmidt, refinery maintenance.



The 70,000-barrel-a-day refinery processes sour crude into gasoline. With Mr. Mason is Park Beeler, a Charter vice president.

line. But now, because of our five-year planning and budgeting, each division has the autonomy to make its own acquisitions, and I am more of an adviser.

The goal of each division is to continue managing what it has well and avoid incompatible acquisitions that would upset the balance sheet. I think we can double our profits over the five years without losing the management gains we have made.

**How do you know you're right about an acquisition? You seem to acquire companies that have something wrong with them or that nobody else wants.**

If you have a lot of money, you can buy nice clean companies. If you don't, and we don't, you have to find something nobody else wants, like Signal wanted to get rid of its refinery. You find little, well-rounded companies that don't cost a whole lot and that help you to fill that niche in the marketplace. And you make sure you have the expertise to run whatever you acquire.

As for being right, I have always believed that if you could make six out of ten decisions correctly, you would be a great success. We make plenty of mistakes, of course, but we try to make six out of ten decisions right. We allow for the other four.

**Downe Communications had lost \$13 million when you bought it. Was that a right decision?**

Well, we never believed that reading was going to go out of style. And the company had assets that we considered worth a lot of money. It had operating problems that were devouring cash, that's true, but we felt that coordinated management could fix that.

The assets were *Ladies Home Journal*, which is 95 years old, and we had bought *Redbook*, which is 75. There is no way you can start something today and have the following and readership that those two magazines have. We have seen a resurgence in magazine reading despite television, and advertisers are returning to magazines all the time. The only way to make sure a 95-year-old magazine gets to be 100 is to change with the times and the needs of readers. That's what we have been doing.

**What happened in 1975 when earnings dipped so badly?**

It was like being whipped with a two-by-four. We had three major problems hit us within three weeks of each other. The refinery in Houston badly needed refurbishing, and we had financed \$60 million to do the job right—one of the cracking towers dated from World War II. Well, we had problems with the contractor—he was on a cost-plus basis—and the bank consortium backing us said the job was going to cost \$100 million.

Then, the United States was in an enormous recession. This hurt our real estate holdings, which were a by-product of our old mortgage banking involvement. And, we had just been in the publishing business a year, and we were trying to set up a communications division as the market value of our communications assets was way down.

The auditors were demanding that we write down the book value of our securities closer to the market level. All the real estate investment trusts in the country were nearly going bankrupt, and the building partner we had invested with went sour, as they say, so we had \$60 million worth of real estate debt on our hands.

And we had to raise the extra money to fix up the refinery. Even with all those problems, we still made money that year. Five or six million, I think.

And today the refinery has a capacity of 70,000 barrels a day. It is one of the few in the country that can process





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If these bureaus were dismantled, a move favored by critics of a regulated trucking industry, confusion and rate abuse would certainly follow.

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way their views won't be held against them, inhibiting fair and impartial consideration.

And the rate bureaus aren't all-powerful, either. Every rate change recommended through the bureau system must be authorized by the Interstate Commerce Commission. The ICC does not authorize a change until the customers and the public have had an opportunity to object. When a rate is contested, the total burden of proof for the change falls upon the rate bureaus. If the bureaus can't satisfy the ICC, the change isn't authorized.

Let's look at some of these changes. In one bureau, for example—the Middle Atlantic—for the most recent period in which figures are available, *fully 87 percent* of all rate-change proposals submitted were *reductions*. Of those, 56 percent were reductions in truckload rates; 31 percent were reductions in less-than-truckload rates. The remaining 13 percent were primarily technical adjustments, most of which were *also* reductions.

Surprised? Wait... there's more. Collective rate making is *voluntary*. Carriers that feel they can justify different rates from those

recommended by the rate bureaus and approved by the ICC are free to file separately with the ICC. And a bureau cannot protest this filing.

In the region covered by the Middle Atlantic Bureau, during the same period as above, there were 1,138 independent actions—almost half as many rate changes as were processed through the Bureau.

Instead of stifling competition and rate reductions, then, the collective rate-making structure actually encourages them. Of course, there are increases as well, enabling carriers to meet rising expenses.

But the important point is that the rate bureaus are working to protect the customer and the public. Without the bureaus, the freight transportation system would break down—fragmented into thousands of individual companies totally lacking in the coordination necessary for a healthy economy.

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**What did you learn from the troubles of 1975?**

Several things. One, we began to concentrate on managing what we had. And part of that was setting up a priority system. Each division now has a priority list, updated once a month. The idea is to work on the No. 1 priority first, and when that is finished, move No. 2 up. That's very simple, but doing one thing at a time before moving on to another has worked out well.

The other thing is that we have restructured our bank debt. In 1975, we had 100 percent bank debt. Today it is probably no more than 15 percent.

The old saying is that the only time the banks want to lend you money is when you don't need it. I have heard that from the smallest businessman as well as the biggest. Banks put you through such hell when you are in hot water. When you need them the most, they all want to withdraw the umbrella, and that has been true through history.

We have excellent relationships with our present banks, but there are some banks we no longer deal with. We are still friendly, polite on the street. But I wouldn't ask them to lunch.

**What about Charter's future? If you retire tomorrow, what will happen to the company?**

Some would argue that it would be a whole lot better off. A few years ago, I would have said the company couldn't have functioned without me. But since 1975, I have not been any more important than any one of the top ten or 15 key people in the company now. I have not performed any more of a significant role. Which is all right with me. I have been on the front line for years; now it is nice to advise the troops and send them out. I enjoy the role of counselor.

**The company's shares are relatively closely held. Are you vulnerable to a takeover?**

As soon as you say something is impossible, it will happen to you tomorrow. We don't say it is impossible, but Mr. Ball and I own probably half the stock, so if anybody wanted to marry

us, they would probably call either of us first.

We have had a few proposals. And we have been flattered. But the price wasn't equal to what we had in mind. We look upon Charter stock like a parent with the first grandchild. It is hard for an outsider to think Charter is worth as much as we think it is worth. We are not looking for an offer.

**What do you see down the road with inflation and the economy?**

Inflation is a fact of life. It has been with us from ancient times if you read your history. You can slow it down every now and then for 15 minutes, but I don't see anybody stopping it. We certainly don't seem the worse for it.

We have to remember that no country in the history of the world ever constructed an economy that gave more things to more people than the free economy of the United States. Even our poor people are rich by the standards of places like India and South America.

**What do you think of the Carter administration?**

It's the old story of taking on too much. You have either got to take amateurs and make professionals out of them or get professionals to do the job. Running Georgia is not like running the country. I support some of Mr. Carter's decisions, but he is just now learning to be a good manager.

**Did you ever think of running for political office?**

I thought about it several times, but each time I became sure that the quality of my life would go way, way down. Privacy may not mean much to some people, but I adore my privacy. I would have to give up 90 percent of it to go into something I can't imagine pleasing me at all. I don't believe I could be effective doing something I didn't like. I just don't like public functions. I don't like public places. I think the best restaurant in town is room service at whatever hotel I'm staying at.

**How did you happen to buy Epping Forest?**

Well, we were at lunch one day, and my daughter, Varina, who was planning to marry, asked Mr. Ball if he knew of a house on the river they could buy. He said yes, the old du Pont estate, which Alfred I. had designed himself. Mr. Ball had supervised every detail of the building and furnishing.

My wife, Minerva, and I went to look

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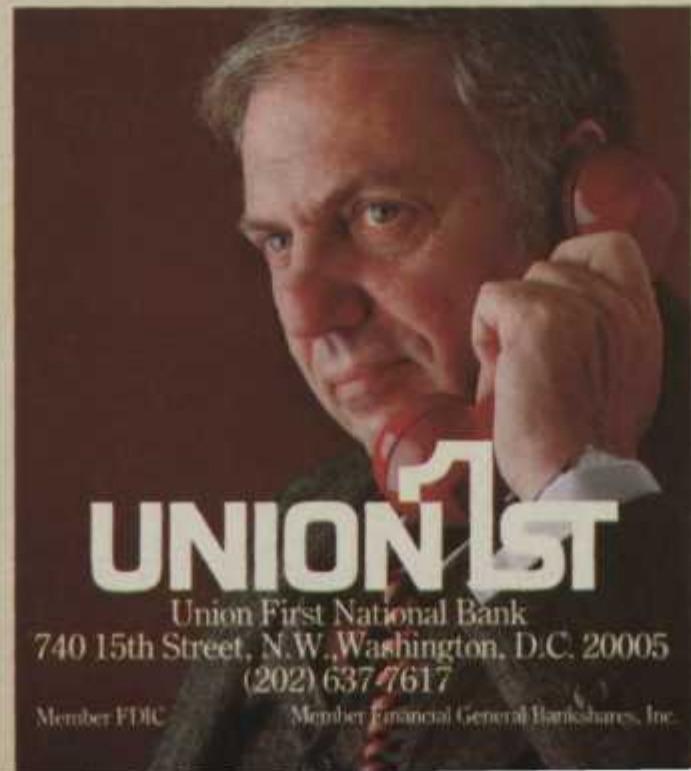
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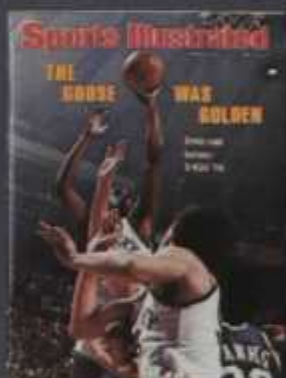
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at it and just fell in love with it. We weren't the only ones interested, but the others wanted to buy it subject to rezoning—it was zoned for a single family residence. Minerva and I just wanted to live there, so Mr. Ball sold it to us. It has proven to be just right for us.

I feel that we would be crazy not to love it. It is so unusual. It is the kind of house you can live in for six months and still find beautiful things and details you hadn't seen before. Every room reflects a craftsman's attention to detail that can't be duplicated today. Even along the garden walls, there are stone sculptures of owls, for Minerva, and acorns for Charter.

**You do most of your work from the office at your home. Why?**

Well, it seems sensible to me. It means I can integrate my family life and business. It's a more relaxing place to talk to people, and we can have lunch or dinner here at the house. And I save the time commuting, not to mention the gas.

**You've entertained a good many of the world's notables at Epping Forest. Who does all the work?**

My wife, Minerva. She is extraordinarily efficient and competent. When we first got married, I said I would never complain if she would never ask me to do anything around the house. We have been married for 30 years, and she has never asked. We have always entertained at home; I was just raised that way. Everything we ever did was always at home. Her family was the same way. It's much more pleasant than going out to public places.

**Did you encourage the children to go into the family business?**

Not really. But the children have grown up with the business. My family always knew what was happening, that is part and parcel of operating from the house. Almost everybody we do business with has come to the house at one time or another, and the children just naturally heard all about the business.

**Do your children seek your advice?**

Yes, and that is another nice aspect of their business careers. Raymond, Jr., who helps run the American National Bank, sometimes uses me as an authority figure when he wants to persuade older directors who might hesitate to approve a decision because of

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4/79



his youth. He is doing really well. And he likes it. He visits me most weekday mornings just to talk out ideas and decisions.

And my son-in-law, J. Dix Druce, Jr., usually drops by at least once a week to talk over insurance questions. He is president of the Charter Insurance Group.

#### What about your daughters?

Well, Varina is learning the business at Charter's corporate headquarters here, and Marcy is studying for her MBA at Harvard Business School. They are both ambitious. Sometimes I think they are a little too aggressive, but I guess that's the way it is these days.

#### Your key executives seem to be constantly traveling. Is it all necessary?

Everybody who works for us ends up traveling, myself included, because we encourage our people to go see everybody face to face. Billy Graham once pointed out that people understand at least 67 percent of what they hear face to face and less than half of what they hear over the telephone.

You have an advantage when the person with whom you want to deal knows that you think he and the deal are important enough for you to get on a plane for a couple of hours and then go through the hassle of traffic to get to his office for a 30-minute meeting. The fact that you care puts you in a favorable light.

#### What attitude do you bring to negotiations for acquiring a company?

I have always told people what I wanted and assumed that they would tell me what they wanted. If it was right for both of us, I assumed that we could work it out, and if it wasn't, we wouldn't. I still do that.

It's like any personal relationship. You ask a person something at the right time and under the right circumstances, you'll get one answer. Different time, different circumstances, you'll get another answer. Same person, same question.

#### Why don't you wear a wristwatch?

I gave it up four or five years ago. I don't remember why. I don't hurry anywhere anymore. I try not to make definite appointments if I can help it. If I have appointments, somebody is always around to remind me of when and where.

I am conscious of time, but I like to finish what I am doing and then go on

to do the next thing. I don't like to think in terms of five minutes for this and ten minutes for that.

#### Are you a competitive person?

I don't think so. I have never tried to be bigger than anybody else in business. Our goal is to run what we have well.

That was the problem in 1975, you see. We got ourselves overextended. We're not awfully big compared to Shell or Prudential or Time, Inc.

#### How do you relax?

I read a lot. All kinds of books, romances, mysteries, historical novels, biographies. I don't think I ever met a book I couldn't read.

Also, I have a habit of taking a nap on Saturday and Sunday afternoons, which makes for a really restful weekend. The past two summers I have gone to stay in Ireland at a lodge we own. It's the most pleasant recreation, just to lie back on the lounge, relax, and read. □



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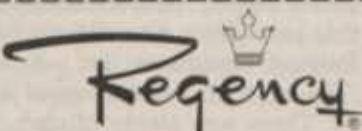
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# Venture Capital Prospects: Tight, but Tolerable

An economic slump will create problems, but financing should be available for those with proven track records

By Mary Paul



Alan Patricof of Patricof Associates typifies the tough, lean venturer of the 1970s. "Now, if you put up \$1 million, you want 60 percent," he says.

**A**S THE ECONOMY slows to recession or near-recession levels and interest rates continue their upward spiral, small businesses wanting to expand will have an increasingly tough time finding funds. Entrepreneurs seeking money to start a new business will face an even more difficult task.

But even if the economy tailspins into recession, things won't be as tough for the small businessman as they were in 1970 or 1974.

That's the assessment of market sources who see the venture capital business going into the next economic downturn relatively well-heeled and the companies it funds in better shape than in previous economic slumps. The consensus is that while venture capital will be tight, things could be worse.

Venture capital traditionally begins to dry up several months before a recession or serious slowdown sets in. Investors become skittish during poor economic times and usually avoid the market until several months after the economy bounces back.

If the venture capital market follows its classic pattern and the economy falters in the second half of the year, as most economists predict, there should be some signs of retrenchment this

spring, according to market sources. However, unlike the recessions of 1970 and 1974, venture capital should be somewhat easier to come by this time around, particularly for businesses that have good track records and are ready to expand.

## Funds available

There is more money around; about \$3 billion is now available, and \$350 million in fresh capital is pouring into venture capitalists' coffers from wealthy individuals, major banks, insurance companies, and corporations.

Also, earlier investments are expected to pay off in the first half of this year. Says Alan Patricof of Alan Patricof Associates, Inc., New York: "We were all underinvested in 1973-74. There was plenty of cash, but we were illiquid. If we have a strong market in the next six months, the cycles will be viable" for making new investments.

According to David T. Morgenthaler, chairman of the board of National Venture Capital Association in Chicago: "The venture capital market today is considerably more optimistic than in 1974. Our own companies are in better

shape and more mature. They need less financing than they did then."

The outlook is also improved by the lower capital gains tax passed last year, reduced from 48 percent to a maximum of 28 percent. Says Mr. Patricof: "A lot of people will sell securities and realize larger gains. This will make them more willing to reinvest."

Walter B. Stults, executive vice president of the National Association of Small Business Investment Companies, says that because of the change in the capital gains tax, "more people will be willing to put money into long-term risk investments. It definitely means something for the guy who locks everything he has into a business."

## Strong market lacking

But a strong venture capital base and lower capital gains tax do not mean that all small business start-ups will find capital easily in the months ahead. Venture capitalists have a responsibility to the firms they have already funded, and available money will go to them first.

Lacking a strong market, Mr. Patricof says, "we'll just have to shore up existing investments."





Telephone information operators use a video screen directory system made by Computer Consoles, Inc. The firm was saved from bankruptcy by venture capital.



Federal government policies are the real culprits, says Arthur Levitt, Jr., American Stock Exchange chairman.

Mr. Morgenthau also agrees that available capital should finance the expansion needs of existing companies if the worst happens to the economy.

"We know we must be the bankers of last resort for our companies," he says. "In a recession, when it will be harder for them to survive, we are considerably more careful about funding new ventures."

"No recession is a good time for venture capitalists and new entrepreneurs," Mr. Morgenthau adds. "A recession at this stage would scare off new investors and make us all the more cautious about investing in new companies."

Patricia M. Cloherty, former deputy

administrator of the Small Business Administration and a partner with Patricof Associates, takes the dimmest view of the venture capital outlook. "As the prime rate goes up, it creates a situation where debt securities such as tax-free municipal bonds become more attractive to investors," she says.

"Putting their money into small business ventures gives them a less predictable yield. It's going to be a tough time for small businesses and start-ups will be the first to feel it."

#### Not for everyone

But Ms. Cloherty is philosophical about tight money. "Not every entrepreneur should be financed in a period like this since many would muck it up," she says. "You could say the market does what is right for capital at any given time."

Stanley Pratt, publisher and editor of *Venture Capital*, the journal of the business development industry, says that venture capitalists are more cautious today than they were several years ago, recession or no.

"The organized venture community represents someone else's money, and it has a fiduciary responsibility to its investors. That makes venture capitalists

want to lend into more established situations, for a shorter term, in firms that can go public earlier," he contends.

Milton D. Stewart, the SBA's chief counsel for advocacy, says an inflationary economy is as bad for small businesses as a recession because these firms need more money, and it is harder to get. "As the venture capitalist looks ahead, he needs to see if the business he's investing in will throw off a higher return than at present."

#### Less attractive deal

"But small businesses have a great deal of trouble passing on cost increases in new lines. As prices go up, the small businessman's equity base goes down. This erodes the capital in his business and makes him need more money than before," says Mr. Stewart.

Not only does small business need more, but also it looks like a less attractive deal to the venturer.

Coupled with recession, the impact is devastating, Mr. Stewart maintains. "When the cost of senior debt goes up, small and big business both look for venture capital," he says. "This throws big business into what was small business's market. Since big business is in a position to fight harder for cash, it digs deeper into equity that would otherwise go to small business."

Government regulation is bad for small business and venture capitalism in any economic climate, notes Mr. Stewart. "The small business burden of regulation is greater proportionately. Regulatory compliance is a form of tax, and the tax is simply greater on small than on large businesses. This is a great deterrent to venture capitalists."

#### Relaxed requirements

Arthur Levitt, Jr., chairman of the American Stock Exchange, calls for relaxed reporting requirements for small and medium-size companies because cost increases as company size diminishes.

"Reporting requirements are far more costly for companies with annual sales under \$100 million," he says. The annual reporting cost per \$100,000 of sales for smaller companies averages \$152; for the larger, \$4.

"The paperwork is the same, but



since smaller companies pay 38 times as much as larger ones, the effect is anything but equal," Mr. Levitt says.

Venture capitalism has changed greatly over the years. Originally, new businesses were capitalized by a handful of wealthy families—the Rockefellers, Whitneys, and Phippses among them—who saw some higher social purpose in it all.

By the 1960s, many new companies were issuing stocks in the public market. It was a heady, glamorous time for new businesses, and underwriters had more new issues than they could handle. By the time the bottom fell out of the market in 1970, underwriters wouldn't touch new companies, and multitudes of investors lost a great deal of money.

### **Sloppy financing**

"In the late 1960s, factors were almost too favorable for the formation of new businesses," says Mr. Morgenthau. "People had gotten downright sloppy in their financing."

A former venture capitalist with one of the nation's major firms claims the venture business isn't what it was in the old days, that today's new breed of venturers generally doesn't know what it's doing.

"There aren't many venture capital-

ists today who understand what it's really all about because they've never formed businesses themselves. By and large they're people from business schools. They're managing the money, but they don't know what it takes to build a business."

### **Professionals survived**

Today's venture capitalists are the people who survived the shakedown of the 1970 recession. "There were literally hundreds of people doing business informally in the sixties," Mr. Morgenthau says. "They were the wealthy amateurs. Most of the professional names are still here."

Venture capitalists who provide start-up and early-stage financing for high-technology, high-growth companies number only about 50. About 200 other firms provide financing for expansion of young companies that have a proven record of success.

There are also 275 small business investment companies—known as SBICs—which supplement the private money they raise with government funds borrowed at a discount. While they prefer to finance the more conservative types of businesses, they are generally the easiest places to find financing. They tend to support sturdy, proven ideas rather than take a

chance on potential high-growth concepts, although there are many types of SBICs that provide different kinds of financing.

Banks have been known to make secured loans to new business ventures, but they are the unlikeliest place for the would-be entrepreneur to find financing. Although in the past banks have provided the capital for some real Cinderella stories, their loan requirements are difficult for most entrepreneurs to meet.

"A business start-up is the riskiest type of loan we can make," says Gene E. Arthur, vice president, commercial loan division of the Riggs National Bank, Washington, D. C. "For the loan to be bankable, we need collateral or insurance other than what might be considered routine." Mr. Arthur says his bank also looks behind the business for a secondary source of repayment.

### **Subsidiary formed**

Bank holding companies are an important but small segment of the venture capital community. Chase Manhattan Corp. and J. P. Morgan & Co., Inc., have dropped out, but New York's Citicorp recently formed an SBIC subsidiary of its own.

Newcomers to the field are corporations such as Exxon Corp.; Time, Inc.; General Electric Co.; Textron, Inc.; and Xerox Corp. They are providing funding for new and expanding businesses, but their motives are often viewed as less than pure by other venture capitalists who contend that some corporations fund only ventures that can grow to become subsidiaries.

Where does the budding entrepreneur go for cash? Most start with a bank, and nearly all are turned down. They may next try for a direct loan from the Small Business Administration or for an SBA guaranteed loan, but the criteria here are about as tough as the banks'.

### **Innovative ideas**

Many will next find themselves turning to a venture capitalist. If the entrepreneur has an innovative idea that looks as if it will turn large profits, a loan may be negotiated.

A sound but not particularly glamorous business idea will most likely attract SBIC funding. These ideas rarely lead to fantastic returns, but these are the companies that can establish a market for their products quickly enough to repay their debts.

Getting financing from a venture capitalist instead of an SBIC or other

## **Information, Please**

Computer Consoles, Inc., based in Rochester, N. Y., began as a public company but has gotten all its funding through venture capital since an initial public offering in 1968 that raised \$3 million.

The firm was started by three former Xerox engineers who had the idea of competing with IBM in computer screen terminals. William N. Stirlen, vice president of corporate development for CCI, says: "The product was a Cadillac, but the price was more."

By 1970, CCI was barely able to meet payrolls and was days away from declaring formal bankruptcy. But, while it had failed to compete with IBM, it had developed a unique system for AT&T Long Lines to store on tape the information for U. S. long-distance cables. The firm was able to put together a \$3 million contract with AT&T Long Lines to automate the entire system.

The firm was still cash short, however, and approached Chicago's Heizer Associates for venture capital. Not only was Heizer willing to invest \$2.3 million, but also it advanced CCI \$600,000 to keep the company afloat until the AT&T deal was closed.

Herman A. Affel, former director of Philco's development business, took over as president of the ailing firm. Mr. Affel, with a strong background in both finance and technology, concentrated CCI's efforts on the phone company marketplace where it now outranks IBM.

CCI's most popular product is a video screen terminal directory assistance system that helps operators retrieve telephone numbers in 30 percent less time than by directory alone. The system, which even allows operators to find numbers by phonetic spellings of names, is currently installed in 14 major cities in the United States.



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## No Time to Test

Federal Express, a Memphis-based cargo air carrier specializing in overnight package delivery, is the most spectacular venture capital deal of the 1970s. It is also the riskiest because venturers had no time to test the market for the product; Federal Express jets all had to be in place and ready to go on the first day of operation.

After failing to interest professional venturers in the deal back in 1973, Frederick Smith, Federal's founder, finally enlisted the aid of Chicago industrialist Henry Crown. It was Mr. Crown who convinced General Dynamics, of which he is the major stockholder and chairman of the executive committee, to put up the initial capital.

General Dynamics also furnished

several Falcon jets converted to carry cargo.

Mr. Smith, with the backing of General Dynamics, was again ready for the venture capital market and managed to interest New Court Securities, one of the largest venture capital pools in the country.

New Court then aided in selling the concept to the largest array of investors ever to come together on a single venture deal. Allstate, Prudential, Citibank, First of Chicago, Fairfield Equity, Heizer Associates, Massachusetts Mutual, the Advent Funds, and a number of smaller investors collectively put up \$25 million.

This was ten times larger than any venture deal ever accomplished before or since, and Federal Express is still flying high.

source costs more today than it used to. In the 1960s, venture capitalists were content to take stock in the new companies their money helped start, with the hope that the stock would appreciate. No longer. Today, they want more. "Before, you would put up \$1 million and take a ten percent interest," says Mr. Patricof. "Now if you put up \$1 million, you want 60 percent."

Also long gone are the days of the straight equity deal. For their money, venture capitalists now ask for preferred stock, convertible debentures, and subordinated warrants.

Of course, venture capitalists are always hoping the companies they help form will turn into another Xerox, IBM, Polaroid, or Federal Express, which were all started with venture capital. But chances are minimal. According to one source, only a handful of the hundreds of companies funded by venture capital will make it big; only half will make it at all.

The kind of company that should make it is described by Mr. Morgenthaler. First, the business concept should be unique with a high potential for marketing success. "We like this to take place in a growing market for the firm's goods and services," he says. "We don't like a shrinking market."

Second, the entrepreneurial team must consist of proven winners. Third, says Mr. Morgenthaler, "we have to be sure the concept and the entrepreneurial team will attract additional financ-

ing from other sources if the firm's needs for capital exceed our limits."

David J. Gladstone, executive vice president of Allied Capital Corp., a Washington, D.C., SBIC, says: "The biggest thing for us is the people. Half our decision is based on the quality of the management—we look for achievers."

Allied is not looking for a razzle-dazzle product. "We look for a more mundane product like a new type of delivery service," says Mr. Gladstone.

The company estimates that it receives between 15 and 20 requests for financing every business day. That adds up to about 4,000 requests a year, but only a tiny percentage of these is funded.

### Bootstrap savings

What should today's small business people and tomorrow's entrepreneurs be doing to assure themselves of adequate funding through a tight money period?

"They may have to bootstrap their savings and look for a slower rate of growth," says Ms. Cloherty. "They will also have to think about financing in the private market."

George A. Neidich, a long-time venture capital watcher on the staff of the House Small Business Committee, has a more sanguine view of the market: "If people think they can make a dollar, come hell or high water, they're going to be in on the deal." □



First of a Series

# How to decide between automatic transmissions and manuals in local delivery trucks.

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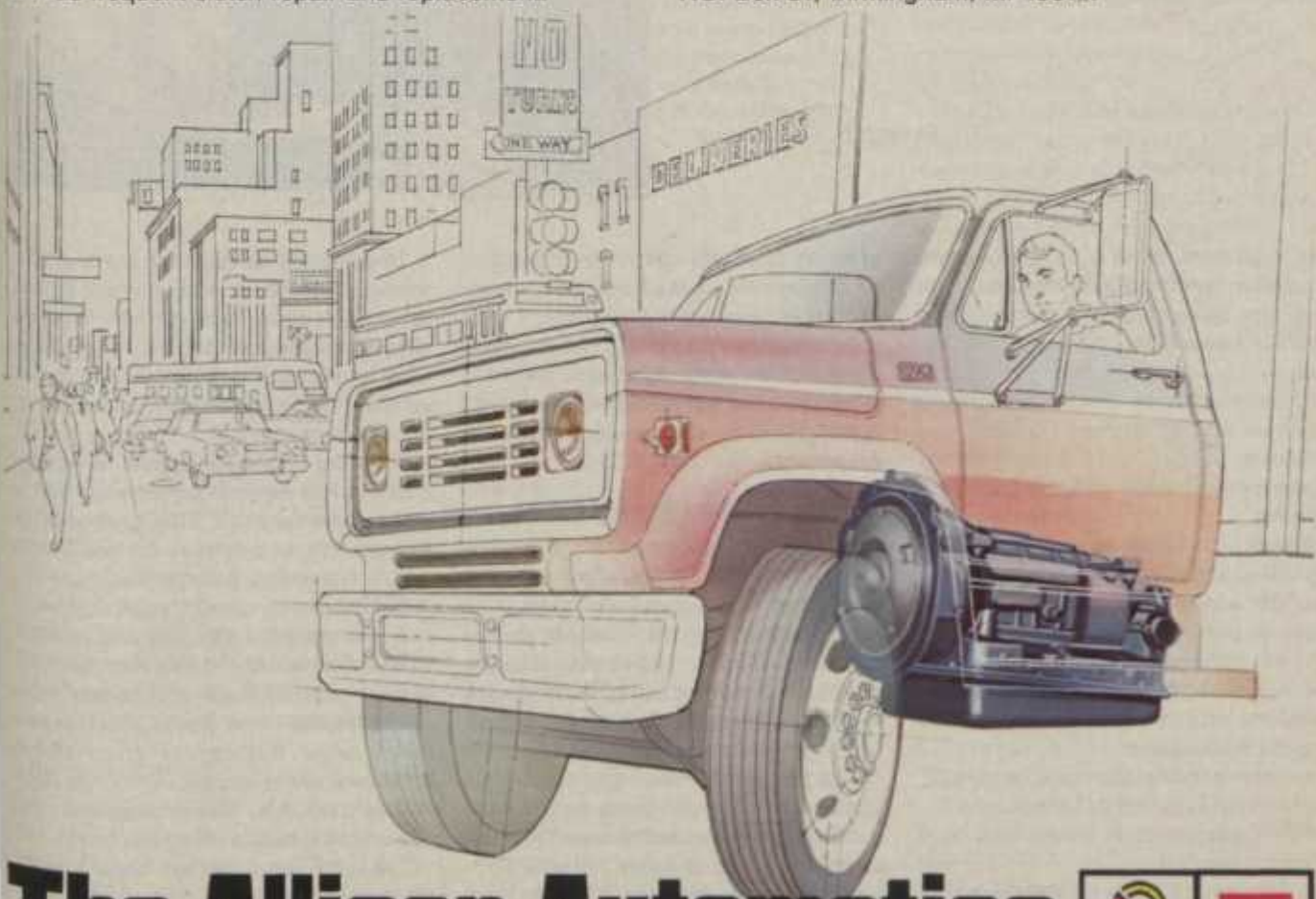
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# The Allison Automatics





## ECONOMIC VIEWPOINT

# Capital Shortage May Shortchange Development

Without drastic redirection of fiscal policy, the dearth of savings could lead to less employment, lower production, and greater inflation

By George E. Cruikshank



PHOTO: GEORGE KLEINMAN—GRIFFITH

**I**F HIGH INFLATION, a none-too-robust dollar, and probable recession this year are not enough to worry about, there is also a looming shortage of capital.

Economic seers warn that unless business and government leaders pay attention to the problem, today's troubles very well may worsen in the next decade.

There is still time to prevent a shortage of capital, which is defined as not enough savings at current interest rates to modernize and expand industry, improve technology, and build up the national physical plant. But hard decisions will need to be made, and tough action taken.

At the outset, the confusion over capital supply needs to be resolved.

For example, it is often said that

industry has been stingy about putting its money into expanding and modernizing plant and equipment.

Between 1970 and 1978, business's fixed investment averaged a little more than ten percent of the gross national product—the 30-year average is 9.8 percent.

### Always in short supply

Some confusion stems from conceptual difficulties. It can always be argued that any supply of capital is inadequate. No country, either industrial or developing, has so much capital that it could not use more if it were freely available. In that sense, capital is always in short supply.

And yet, some economists argue that there can be no such thing as a capital shortage. In the capital markets, demand for funds is balanced with supply by interest rates. Those who cannot pay the costs of borrowed funds pull back. Thus, there is never a visible gap between supply and demand.

Depending on the conceptual approach, there is always a capital squeeze, or there is never one. With so slippery a concept it is not surprising that confusion abounds. But most economists do agree on the definition of capital adequacy.

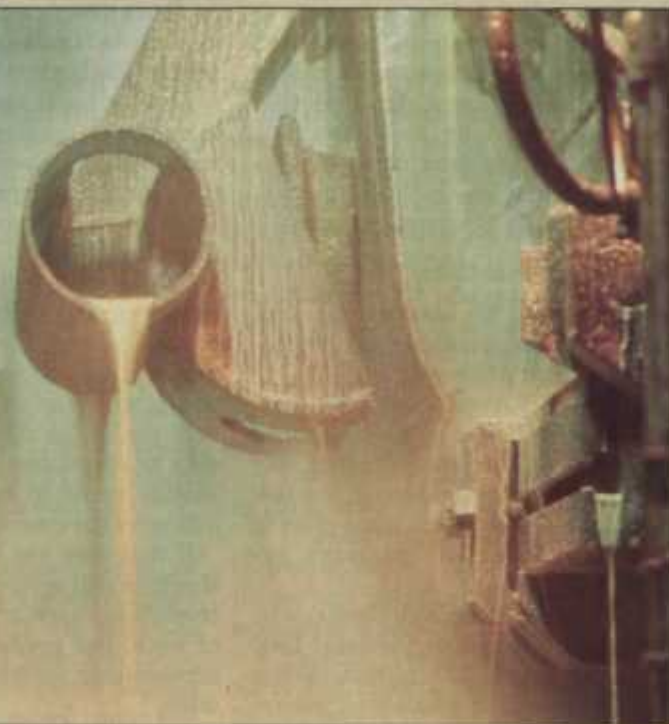
Whether capital supplies are adequate or not depends on the goal that a society sets for itself. That goal usually is a growth in national income based on the economy's past performance.

Will there be enough capital investment to generate the jobs and growth in national income at the pace deemed to be desirable? If the economists' estimates of the need for capital investment come out larger than their estimates of the supply of savings that will be available, then economists conclude that a capital shortage looms.

That, in turn, means that investment will lag and incomes will not grow at the desired rates. Unless, of course, something can be done to boost the supply of savings.

MR. CRUIKSHANK is a vice president of the Morgan Guaranty Trust Co. of New York and editor of its monthly economic review, *The Morgan Guaranty Survey*.





Cold rolling of steel calls for lubricant as well as more modern equipment. One of the most capital-intensive industries, steel needs billions of dollars annually for plant and equipment modernization.

Pollution controls like these at the Banket mill in Biddeford, Maine, are the reason industry needs billions in new capital. Where this money is a thorny question.

There are three major reasons why a larger portion of the economy's output will need to be directed toward business investment in the next ten years:

- Government-mandated expenditures for pollution control, job safety, and consumer protection do not increase the economy's output potential.
- Higher energy prices will require increased investment in domestic energy supplies and in energy-conserving plant and equipment.
- The country's capital-intensive industries, particularly producers of basic materials such as steel, will need to pour many billions of dollars into expansion and replacement programs.

#### Fingers crossed

Economists estimate that an additional one to two percent of the annual gross national product will need to be redirected toward business investment. Such percentages translate into \$20 billion to \$40 billion of additional capital each year over the next decade.

Will there be enough savings to finance all the investment needed to keep jobs and incomes rising at a satisfactory rate? Optimists cross their fingers and reply in the affirmative. Many others, however, are less sanguine. They worry that unless more is done to encourage saving through changes in government policy, a capital shortage could develop.

Although the savings rate has fluctuated over the past decade, people have reduced the rate at which they save to about 5.5 cents of each dollar of income from a high of 7.8 cents per dollar in 1973.

Inflation is partly to blame for the drop. As consumers see prices steadily mounting, they tend to spend now to beat higher prices. Such attitudes are showing up in consumer surveys.

No one can say how pervasive, how long, or even whether such attitudes toward spending will continue. What is known is that the age distribution of the population will tend to work

against a high personal savings rate.

Blame that on the postwar generation. They are now becoming high-spending, low-saving young adults. Conversely, the big savers—people aged 40 to 60—are a smaller proportion of the overall population, reflecting the low birth rate of the depression years.

Business earnings, which can be used to finance improvements and expansion, have been severely damaged by government taxes. In an age of inflation, government levies taxes on phantom profits.

#### Overstated profits

The government does not allow adequate depreciation for business equipment and facilities. When a piece of equipment must be replaced, the historic cost of that equipment, recoverable under the tax law, is not sufficient to pay for the higher cost of the new machine. As a consequence, corporate profits are overstated. In effect, the government's income tax is partially a tax on capital.

Additionally, the double taxation of dividends—once as corporate profits and once as shareholders' income—discourages saving. Broadly, the government's reliance on personal and corporate income taxes tends to favor current consumption over saving for future consumption. Greater reliance on sales taxes would diminish that tendency to spend now and encourage people to save.

#### Reducing individual risk

Aside from the present tax policy, the government discourages private saving and capital formation through programs that satisfy the needs of individuals that otherwise would have to be met by private saving.

The social security system, health and unemployment insurance, and similar programs reduce an individual's risk or financial uncertainty. Why save for retirement or a rainy day when the government stands ready to hand over a cash payment on a regular basis?

The impact of social security would not be so alarming if the program functioned like private pension systems. These collect more funds than they



pay out in current benefits. The surplus flows into investment outlets.

But social security is essentially a pay-as-you-go program. Income is transferred from workers paying social security taxes to benefit recipients.

To the extent that people believe social security benefits remove the need for personal saving, the national saving rate will decrease. Prof. Martin Feldstein, president of the National Bureau of Economic Research, Inc., estimates that social security reduces the amount of private saving in this country by a hefty 40 percent.

What to do about it? One possibility would be to exempt from the social security system those workers who are covered by private pension plans. Substituting a funded system for an unfunded one would give a substantial boost to private saving.

When the economy is strong, government saving—a surplus in the federal budget—could supplement private saving. With surpluses in the budget, the government could pay off holders of government securities and reduce the national debt.

That scenario is most often cited by those who are optimistic that this

country can avoid a capital shortage in the next decade. They see government expenditures growing at a controlled rate and federal revenues rising in a growing economy; as a result, the budget will swing into the black and stay there for an extended period.

Is this realistic? Over the postwar period, budget surpluses have been rare. Some economists have talked about the huge fiscal dividend that some day would be available. But somehow that dividend never materialized. Expenditures gobbled up available revenue. Or Congress cut taxes.

### Tightening markets

Either way, it has been red ink—not black—that has splashed over the federal books year after year.

In fiscal 1979, even though the economy is now well into its fourth year of expansion and the labor, product, and credit markets are tightening, the federal deficit is expected to come close to \$40 billion, on top of last year's \$49 billion.

Significantly, President Carter, who has promised to reduce the fiscal 1980 budget to about \$27 billion, keeps pushing the goal of a balanced federal

budget farther into the future—to 1981, at the earliest.

Part of the reason is that total governmental spending—federal, state, and local—which has nearly doubled since the end of World War II from 17 percent of the gross national product to about 33 percent last year, is designed to increase, not decrease, through legislative mandate.

Looking back, the record of government fiscal management is far from reassuring. The common tendency has been for the government to drain savings out of the economy, not to put them in.

Couple that tendency with federal programs and policies which discourage saving and it is difficult to be optimistic that, somehow, government saving will head off a capital shortage.

Hopes to the contrary should probably be abandoned. Instead, serious attention needs to be given to positive action by government.

If that does not happen, the capital shortage will arrive with its attendant hardships: more and more people out of work, less production, fewer goods, accelerating inflation, and financial crisis. □



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Builder" in the White Pages. Or write Butler Mfg. Co., Dept. B-117, BMA Tower, Kansas City, Mo. 64141.





## Cleaner Air Means More Jobs But Depresses Economic Indicators

**A** STUDY RECENTLY released by the Council on Environmental Quality and the Environmental Protection Agency shows that getting cleaner air and water puts a damper on many economic indicators, although it also reduces unemployment.

Data Resources, Inc., prepared the study, "The Macroeconomic Impact of Federal Pollution Control Programs: 1978 Assessment," which covers the period 1970-86. In many instances, impacts are more severe at the beginning of the period, but currently are softening or are expected to soften soon.

Highlights include:

- **Inflation:** The consumer price index is expected to be 4.2 percent higher by 1986 as a result of the pollution control program. This year it is rising by 0.1 percentage point faster because of the programs. Between now and 1986 it is expected that the programs will add 0.1 and 0.2 points annually to the index. DRI estimates that the maximum impact on the inflation rate occurred in 1973-74 "when the extra pollution abatement-related expenditures added further inflation pressures to an already overheating economy."

- **Unemployment:** To be lower in 1979 by an estimated 0.2 percentage point because of the program. The same annual decrease holds in 1986. In the early part of the period the increased employment results from the economic stimulus that the pollution control investments provide, causing GNP to be higher than it would otherwise have been. In the latter part of the period, the increased employment results from the jobs involved in operating and maintaining the pollution control equipment that is in place.

- **Productivity:** Down 0.5 point in 1979; down 1.4 points in 1986.

- **Gross National Product:** Early in the period the additional investments required for pollution control stimulated the economy and increased GNP above what it would have been otherwise. Since 1972, however, the effect of the stimulus has been steadily decreasing because of the lower rate of productivity growth. There is expected to be little difference, with or without the

programs, in 1979. By 1982, the level of the GNP growth rate will fall below the level that would have occurred without them, reaching a difference of almost one percent in 1986.

- **Business Investment:** By 1983, total real business fixed investment with pollution control programs should fall below the level that would have occurred without the programs, and should continue below that level through 1986 when this difference should reach 2.5 percent.

- **Corporate Profits:** Down 0.7 point in 1979; down 0.9 point in 1986.

- **Interest Rates:** As based on AA corporate bonds, up one quarter of a percentage point in 1979; up only one seventh of a point in 1986.

- **Foreign Trade:** Raises both imports and exports, but imports go up faster; generally has negative impact on balance of payments.

### Faster Paper Flow for Office of Tomorrow

If offices move at the speed of paper, International Business Machines Corp. plans to speed up the flow.

The company's newest product, an Information Distributor, is capable of a full range of communicating. Several technologies are brought together in a single, multipurpose unit:

- The device prints with original quality for both word processing and data processing applications;

- It receives and transmits documents electronically over ordinary phone lines (facsimile printing);

- And it serves as a 36-copies-a-minute convenience copier.

"We believe this product represents a significant evolutionary step toward the much discussed office of the future," says J. Richard Young, presi-



The versatile Information Distributor by IBM is the type of machine that will be used in offices of the future. This multiple-function unit prints by laser.



dent of IBM's Office Products Division. "The IBM 6670 Information Distributor's combination of technologies can greatly simplify the dissemination of information.

"It makes a new dimension of printing quality available to the office and enhances communications through its capability of being linked to computers and their data bases," he says.

Test marketing has been done in a variety of office settings including a law firm, a heavy equipment manufacturer, and a research laboratory, with first deliveries scheduled before mid-year. •

## Glass Containers Rate High for Freshness

When it comes to food packaging, consumers prefer glass, according to a study conducted by Consumer Response Corp., which showed that of 1,000 consumers, 85 percent were satisfied with the quality of glass packaging.

Consumers were asked to evaluate glass, metal, plastic, and paperboard packaging for the following qualities:

- Protection of product freshness and flavor.
- Ease in opening.
- Safety.

Glass, the overall favorite, was followed by metal, which drew complaints from only 18 percent of the group. But 35 percent were dissatisfied with plastic and 44 percent with paperboard containers.

Glass containers scored highest in the product freshness category. Less than one percent of the consumers questioned had any complaints. •

## Coinless Public Phones Help Business Travelers

The days of searching frantically for coins to use the telephone may soon be over. A coinless public phone—already being tried in several locations—will make calls easier throughout the country by 1980.

"Research told us that our customers wanted to be able to place their calls without digging for change," says Bob McQuade, assistant product manager for AT&T's Charge-a-Call service. "In fact, noncash calling is the fastest growing segment in our public telephone market. Approximately 70 percent of all long distance calls made on public telephones now are charge or collect calls."

So AT&T's Charge-a-Call service, using coinless public telephones manufactured by Western Electric, is being

implemented by several Bell telephone companies. Michigan Bell, New York Telephone, and Southern Bell were among the first to offer the service.

Since people on the move are the chief market, the coinless phones will be placed first in transportation terminals, hotels, truck stops, restaurants near highways, and in major office buildings. The service is also expected to be popular at colleges and military bases.

In addition to providing faster, more convenient service to customers, the service has advantages for the Bell System. Since the sets have no coin-handling devices, they cost less than half the price of a regular coin phone to manufacture, are easier to maintain, and eliminate loss of money through vandalism. •

## Amtrak Develops New Train Car Wash System

Just soap and water, no scrubbers. That's the method Amtrak will use to wash its rolling stock, starting in April.

The new patented car wash eliminates the need for brushes or high-powered water pressure.

Herb Gall, Amtrak's assistant chief for engineer-design and construction, estimates that the new car wash will use 300 gallons of water and 60 gallons of detergent per minute. However, since the water and detergent will be run through separate storage tanks, cleansed, and used again, Mr. Gall says the facility will pay for itself in six to seven years.

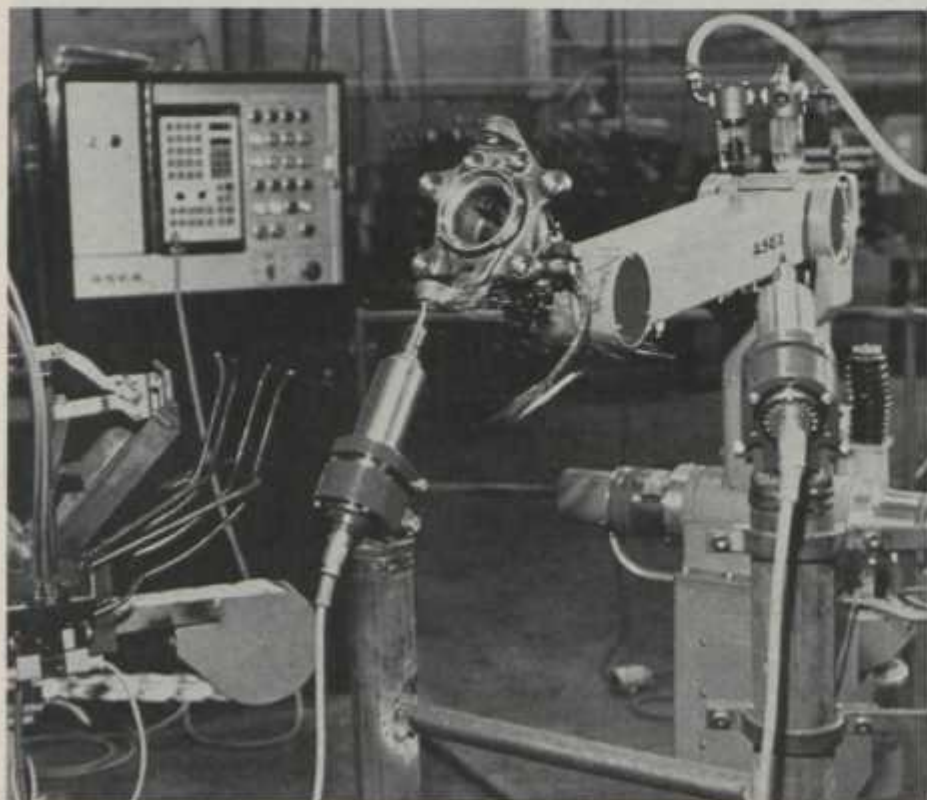
Designed by Amtrak engineers at the maintenance center in Rensselaer, N. Y., the car wash has attracted attention from other transportation concerns. Sumitoma Corp. of Japan has contracted to build a similar brushless car wash. •

## Airlines Use Less Fuel to Carry More Passengers

U. S. airlines proved that less is more in 1978. The airlines used 50 million gallons less fuel than in 1973 but carried 78 million more passengers.

A report by the Air Transport Association of America explains that the phenomenon resulted from five years of:

- Using flight simulators to reduce the number of training flights;
- Reducing the number of flights by 140,000 a year and using larger planes carrying more passengers per flight;



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• Computing fuel-conserving flight paths; and

• Reducing speed to cut fuel consumption.

In 1973, says the association, U.S. scheduled airlines carried 202 million passengers and used 10.68 billion gallons of fuel. For 1978, there were 280 million passengers and 10.63 billion gallons of fuel.

There are some trade-offs for passengers. Fewer flights may be inconvenient, more crowded planes may reduce comfort, and slower speeds mean longer flight times.

Airlines say the trade-offs are worth the price: Jet fuel has increased from 12 cents a gallon five years ago to 40 cents today. •

## New Home Buyer Profile Announced

What earns \$24,000 a year, has a 33-year-old head, and can scrape together \$51,000?

According to the National Association of Home Builders, it's the typical new home-buying family unit.

Because home builders need a regu-

lar updating on who their customers are, the NAHB does an annual survey of buyers of new homes covered by the Home Owners Warranty (HOW) program. Some of the findings include:

• Median household income was \$24,730.

• Median age of the head of the household was 33.4 years.

• Median price of the new home was \$51,523.

• 64.2 percent of those polled were married couples with children. Another 29.8 percent were married couples without children. Single persons accounted for 4.3 percent.

• The average family unit consisted of 3.4 members.

• 48.2 percent of all the home-buying households had two or more wage earners.

• 61 percent of the first-time buyers had two incomes.

• The median monthly cost of maintaining the new home for all respondents was \$495. This included interest on mortgage, insurance, taxes, and utilities. The median monthly cost of those who had a previous residence was \$305, or 62 percent less. •

## Sun and Wind Figure in Long-Range Utility Plans

While many businesses have five year plans, the electric power industry is energetically looking ten to 20 years into the future at such things as sunshine and breezes.

Two recent studies sponsored by the Electric Power Research Institute, Palo Alto, Calif., found that solar cells and wind power, now considered experimental alternative energy sources, could be making a significant impact on conventional electrical systems as early as 1990.

"Utilities need to know how generation by centrally located wind or solar cells could fit into their systems," says Dr. Edgar A. DeMeo, EPRI project manager. "For example, are there some conventional units a utility can avoid constructing because they put in windmills that could be an economical power source as early as 1990?" he asks.

The EPRI studies found that the characteristics of the utility may be as important as the availability of the wind or sun in determining if these energy sources are competitive with conventional energy sources.

Even though the state of Kansas generally has stronger winds than up-

state New York, Dr. DeMeo says research indicates that wind power plants may be better for upstate New York since utilities there burn expensive fuel oil while Kansas utilities rely heavily on cheaper coal.

According to EPRI, research will continue over the next two years in two new studies focusing on the impacts of wind and solar cell power plants that are dispersed throughout a utility system. •

## Digital Readout Home Thermometer

A quarter of a millenium after it was invented, the ordinary glass bulb thermometer now has a modern, electronic digital counterpart commercially available for home medical use.

Called Electro-therm HT-1, the one-ounce, hand-held instrument uses a micro-processor on a chip one-eighth inch square to take both oral and rectal body temperatures.

Time required to obtain accurate temperatures in one-tenth degree increments is 40 seconds, says the manufacturer. It is similar to electronic digital thermometers used in hospitals and medical offices.

The consumer version is run by two flat, round battery cells like those used in cameras or electronic watches. The batteries provide 1,000 uses. Price is about \$30, or ten times the cost of a



Space-age electronics made possible this compact, digital-readout home thermometer.

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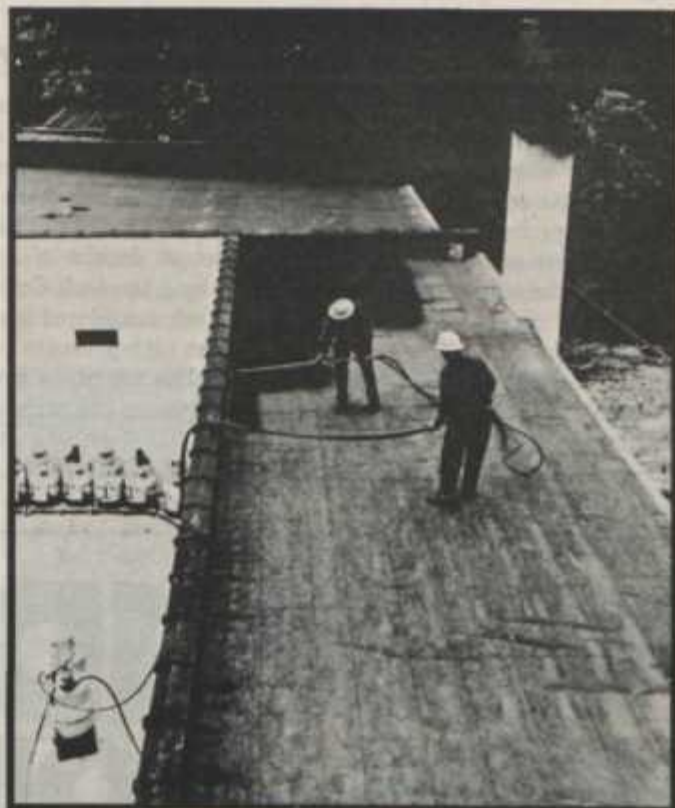
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typical glass tube thermometer using alcohol or mercury. The Electrotherm, made of plastic, is said to be particularly useful with infants and geriatric patients. It was developed by Electromedics, Inc., of Denver, a firm that specializes in temperature monitoring devices for industry and hospitals. •

## Private Industry Figures in Remote Sensing Plan

Two of the nation's foremost scientific agencies, the National Aeronautics and Space and the National Oceanic and Atmospheric administrations, are jointly undertaking a study to determine the extent to which private industry can participate more directly in civil remote sensing.

The private sector is being asked to submit views on increased participation in remote sensing, which involves obtaining information about the Earth from space using various advanced sensing instruments. Suggestions are being considered on the roles of government and the private sector, capital investment, commercial product devel-

opment, and incentives needed to participate.

Private firms should send their suggestions to the Director of Government/Industry Affairs, NASA, Washington, D. C. They will be considered in developing plans and policies for private investment and participation in every phase of the nation's remote sensing program.

The study, expected to be completed this summer, was directed by President Carter in his recent civil space policy statement. •

## Utilities Study Use of Geopressured Energy

Scientists in San Antonio, Texas, have embarked on a one-year study of ways to tap geopressured water and gas miles below the earth's surface.

Geopressured zones are known to exist at depths of 5,000 to 25,000 feet along the Gulf Coast. But so far it has been considered too expensive to bring the high-pressure brine to the surface.

The scientists are trying to use the methane gas, which may total as much as 3,000 trillion cubic feet, plus the

thermal energy of the brine. Southwest Research Institute of San Antonio is doing the study for the Electric Power Research Institute. •

## There's Opportunity in Hazardous Waste

Federal legislation is creating business opportunities in hazardous waste, says William T. Lorenz & Co., a management consulting firm based in Boston.

The company bases its assessment on "strict hazardous waste legislation, particularly the Resource Conservation and Recovery Act of 1976, that will force industry to spend more than \$960 million for equipment and plant to handle and dispose of waste in 1980, up from \$615 million in 1977."

Industry will produce more than 100 percent more hazardous waste for off-site disposal in 1985 and U. S. Environmental Protection Agency regulations will require more sophisticated and costly means of disposal and treatment, the firm says.

Another solid waste business group is benefitting from RCRA and municipal budget-cutting: private contractors who can pick up and dispose of garbage cheaper than city employees can do it. •

## Cut in Oil Imports Squeezes Small Refiners

Small independent oil refiners, who account for about 20 percent of the nation's total refining capacity, are already only narrowly profitable, and the curtailment of crude shipments from Iran will further squeeze them, warns the 66-member American Petroleum Refiners Association.

"Independent refiners are experiencing severe problems in trying to acquire crude oil at any price," says D. Truitt Davis, president of Lancer Industries, Inc., of Abilene, Texas, and an APRA officer.

Ray F. Bragg, Jr., executive director of APRA, says the federal government should assure crude oil access to all domestic refiners because the small refiners serve markets the majors don't want, such as rural areas and small towns.

If severe shortages of heating oil, jet fuel, or gasoline occurs, Mr. Bragg says a top federal priority should be that "shortages be shared equitably among all the nation's consumers." •

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# Wanted: Tax Cuts, Not Wage Insurance

**B**Y AN OVERWHELMING majority, the nation's business leaders oppose President Carter's real wage insurance tax credit plan as a way to help fight inflation.

Indeed, the scientific sample of the men and women who run a broad spectrum of companies of all sizes believe the goals of the administration's entire package of wage, price, and profit standards will be difficult to achieve.

The results of a regular quarterly survey by the Chamber of Commerce of the United States and the Gallup Organization on business confidence also show there is still a lack of confidence by business leaders in the administration's ability to manage the economy.

The real wage insurance plan proposed by the President would allow workers who stay within a seven percent wage increase to receive a tax credit if inflation exceeded that amount in fiscal 1979. The credit would be one percent on the first \$20,000 of wages for each point of inflation above seven percent, up to an inflation rate of ten percent, and with a maximum ceiling of a \$600 credit for any individual.

## Most opposed plan

Business leaders responding to the survey who oppose the plan are in the vast majority—85 percent. Only 15 percent favor it.

Of those responding, 79 percent say the plan will not help achieve wage standards, and 89 percent say it will not reduce inflation.

Instead of the wage insurance plan, 87 percent of those responding to the survey favor an income tax cut for all taxpayers.

Dr. Jack Carlson, National Chamber vice president and chief economist, stated the business community's views on the wage insurance plan in testimony before the House Ways and Means Committee in February.

He said the plan "could add \$10 billion to the federal deficit, which in turn could add to inflation, give windfall tax cuts to millions of taxpayers,

and exclude millions of other taxpayers. However, very few people would receive lower pay increases."

Dr. Carlson also warned the plan would "impose much more red tape on employers, bring the heavy hand of the Internal Revenue Service into wage determinations, and move public policy closer to mandatory wage and price controls."

In response to another survey question, 83 percent of the business leaders believe mandatory wage and price controls are likely within the next two years. A majority of those responding also think it possible the administra-

tion will expand its current wage and price program to include credit controls within the next 12 months.

In his testimony, Dr. Carlson said: "The wage and price standards are so poorly designed, and government is doing so little to treat the real causes of accelerating inflation that it will be difficult or impossible for more than one half of American industry to achieve the price standards."

By an overwhelming majority, respondents to the survey agree that it will be difficult or impossible to achieve the price standards.

In response to another question,

## Business Leaders' Assessment of the President's Real Wage Insurance Tax Credit Plan

	Yes	No
Favor plan	15%	85%
Help achieve wage standards	21%	79%
Reduce inflation	11%	89%
Favor tax cut for all taxpayers	87%	13%

## Likelihood of Mandatory Wage and Price Controls Within Two Years

	Likely	Unlikely
Fall 1977	34%	66%
Spring 1978	53%	47%
Fall 1978	76%	24%
Current	83%	17%

## Likelihood the Federal Government Will Impose Credit Controls Within 12 Months

	Likely	Unlikely
Small companies	52%	48%
Large companies	59%	41%
All companies	56%	44%

## Achievement of the Administration's Price, Profit, and Wage Standards

	Difficult or impossible	Not difficult or easy
Price standard	74%	26%
Profit standard	72%	28%
Wage standard	85%	15%

## Likelihood of Difficulties With Labor Negotiations

	More	Less	Same
Winter 1978	39%	3%	56%
Current	45%	4%	51%

## Prospects for Increases in Sales and Profits After Adjusting for Inflation

	Winter 1978	Summer 1978	Current
Sales:			
1 Year	78%	81%	76%
4 Years	85%	89%	86%
Before-Tax Profits:			
1 Year	51%	60%	45%
4 Years	62%	67%	60%



# OHIO

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Combined state and local taxes in Ohio — as a percentage of personal income — are lower than in any major industrial state in the United States, according to U.S. Department of Commerce figures.\*

Based on a percentage of personal income, Ohio ranks 48th in taxes levied on its citizens and businesses.

As an example of Ohio's low taxes, consider the fact that during fiscal year 1976-1977, per capita state taxes in Ohio were \$334, as compared to the national average of \$472. Also, per capita real property taxes in Ohio average \$202, substantially lower than the national average of \$242.

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### Low Taxes Mean More Profit

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6. A progressive, open hands attitude toward industrial growth.

For more information or assistance, contact James A. Duerk, Director, Department of Economic and Community Development, P.O. Box 1001, Columbus, Ohio 43216. Telephone (614) 466-3379.

\*Source: U.S. Department of Commerce State Government Finances 1976 (August 1977) and State and Local Government Finances 1975-76 (September 1977)

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### Chance of Double-Digit Inflation

	Winter 1978	Spring 1978	Summer 1978	Fall 1978	Current
Within 12 months	23%	35%	49%	51%	52%
Within 24 months	38%	46%	54%	56%	54%

### Chance of a Recession

	Winter 1978	Spring 1978	Summer 1978	Fall 1978	Current
Within 12 months	26%	31%	39%	38%	50%
Within 24 months	43%	48%	55%	52%	63%

### Business's Assessment of Gains From Expanding Trade

	Increase	Hardly any effect	Decrease
Jobs and output	80%	12%	4%
Inflation	28%	32%	36%
Investment and productivity	69%	23%	4%
Value of the dollar abroad	77%	9%	10%

business leaders say they expect an increase in difficulties with labor unions in wage negotiations during the next few years. Forty-five percent expect more difficulty this year, as compared to 39 percent responding to a similar question in 1978.

### Expect poor job

In every region of the nation, the majority of business people responding to the survey continues to expect the federal government to do a poor job in fighting inflation in the next year or two. But the size of the majority has declined from a high of 72 percent last summer to 52 percent now. Very few—three percent—business leaders expect a good job from the federal government in the next year.

Most business leaders also give a poor rating to federal regulatory agencies, President Carter's regulatory and spending policies, and policy actions of Congress.

Less negative ratings are given for the President's tax and foreign policies and actions of state and local government officials.

Interestingly, business people rate their own representatives or senators less negatively than all of Congress.

It might be inferred that the reason for the low rating of federal policies is that business people assess a greater than 50 percent chance for double-digit inflation within the next year.

Also, business executives have become increasingly worried about recession. In the latest survey, they say there is a 50 percent chance of recession within 12 months, up from 38 percent in the fall of 1978.

"Nevertheless," notes Jay Schmiedeskamp, vice president of the Gallup Organization, "the survey respondents remain optimistic about the sales outlook for their own companies."

Fully 76 percent expect their total sales—after adjusting for inflation—to be higher in the next 12 months than in the past 12 months. And 86 percent expect their sales to increase over the next four years.

### Not greatly alarmed

"These findings suggest that businessmen are not greatly alarmed about the present economic outlook. Those who expect a recession believe it will be relatively mild," says Mr. Schmiedeskamp.

However, less than half of the business officials expect improved profits during the next year after adjusting for inflation.

Most of the business executives see expanding international trade as a plus. Their assessment is that such expansion increases jobs within the United States, increases investment and output, supports the value of the U.S. dollar, and modestly helps to fight inflation.



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# Workers Expect the Worst But Are Optimistic Anyway

**M**EN AND WOMEN in the nation's work force, union and nonunion alike, expect 1979 to be a worse economic year than 1978.

Higher unemployment, inflation, interest rates, and taxes are expected in the pessimistic view of a scientific sampling of workers.

The survey was conducted for the Chamber of Commerce of the United States by the Gallup Organization.

## Worsening inflation

On the inflation front, workers expect prices to go up faster than last year. One third of the 850 workers personally interviewed expect an inflation

rate of ten percent or more. One third expect more than five percent but less than ten percent. The remaining third predict less than a five percent inflation rate, but half of those expect prices to increase more than their own income.

The survey questioned full-time and part-time workers, union and non-union, with high and low incomes.

The workers pointed to federal government spending and the budget deficit as the chief cause of inflation. Union wage demands was the second most important cause given for inflation; the third was prices and profits of business firms. Some workers identified consumer spending and borrowing as a significant cause of inflation.

## Little faith

On the whole, the workers express little faith in the government's efforts to maintain a healthy economy. Sixty-one percent expect only a fair job. Almost twice as many—22 percent—expect a poor job as those who expect a good job.

How to cure inflation? Most of the workers favor slowing down federal spending and deficit financing.

Almost four out of five favor a constitutional amendment to limit the growth of government spending and taxing.

## Similar to business

This strong support to limit spending and taxes to an amount no more than the growth of an average person's income is similar to strong feelings expressed by business executives in another survey conducted by the National Chamber and Gallup.

"Fully half of American workers supports a decrease in federal regulations," Dr. Carlson also notes. "This is in sharp contrast to a 33 percent increase in the budgets of regulatory authorities for fiscal 1979 and 1980 to increase regulation and enforcement capabilities."

Half of those surveyed, however, expect their own financial condition to be better this year than last.

"Evidently," says Dr. Jack Carlson, vice president and chief economist of the National Chamber, "the average worker optimistically feels that he is going to do better than the economy as a whole."

## Workers' Economic Outlook for 1979 Compared With 1978

	Higher	Same	Lower
Price inflation	42%	45%	13%
Real income	12%	35%	53%
Unemployment	48%	38%	14%
Interest rates	73%	20%	7%
Taxes	55%	28%	17%

## Workers' Personal Financial Condition

	Better	Same	Worse
Compared with 1 year ago	49%	23%	28%
Estimate for 1 year ahead	58%	23%	19%

## Support for Constitutional Amendment to Limit Federal Taxing and Spending

	Favor	Oppose	Don't Know
Workers	78%	14%	8%
Consumers <sup>1</sup>	76%	14%	10%
Business people <sup>2</sup>	78%	21%	*

<sup>1</sup> Chamber-Gallup Consumer Survey, December, 1978.

<sup>2</sup> Business Confidence Survey, February, 1979.

\* No response, 0.5%.

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## Too Much Fat in Federal Paychecks

**I**F THE RESPONSE to the NATION'S BUSINESS Sound Off question for February is an accurate reflection of public opinion, then a resounding majority of Americans believes federal workers are overpaid.

By a ratio of almost ten to one, readers agree with Alan Campbell, head of the new federal Office of Personnel Management, that "more federal workers are overpaid than are underpaid."

Many readers pointed out that average federal pay is almost \$5,000 per annum higher than average private industry salaries. Others state that, while high federal wages might be justified in northeastern urban centers, they are out of line with average salaries in other parts of the country.

Still other readers believe that federal pay should be lower than that in private industry. Liberal fringe benefits and federal-worker exemption from social security taxes should compensate U.S. government employees for any difference in pay scale.

Dissenters, however, do not think federal workers are overpaid. They point out that federal workers pay more for many of their fringe benefits than some private sector workers.

Current federal wage scales stem from comparability studies conducted when federal pay was lower than private industry's. The purpose was to bring federal workers' salaries up to a level comparable to that of private workers with similar responsibilities. Many readers feel that these studies were distorted because federal pay was compared only to the wage scales of the country's top enterprises and because only selected private industry salaries were considered.

Alvin Funk of United McGill Corp., Columbus, Ohio, speaks from personal experience: "As director of personnel and industrial relations, I have been involved in many wage surveys. Time and time again, the collectors of this type of data will not consider wages unless an employee is a specialist in his profession or in his occupation of the blue-collar work force."

### Overpaid and Inefficient



"I do not believe the top three to five percent are paid enough, considering how hard they work. The rest, however, are very definitely overpaid when their salaries are matched against their output."

That's what Paul F. Hartz, chairman of Fram Corp., Providence, R.I., says about federal workers' wages.

Mr. Hartz worries about a lack of productivity among federal workers and a failure of government officials to implement efficient, businesslike methods of running their agencies.

"Private enterprise would go broke with that kind of inefficiency," he says.

Kirk Schaller, general manager and president, *Petoskey News-Review*, Petoskey, Mich., sees another inequity. Federal pay levels remain the same regardless of the location of the agency and the average area salary level.

Harold Baker, a U.S. Postal Service worker in Michigan City, Ind., says he's earned every dollar the government has paid him. "I have worked under some unbelievable weather conditions. If you don't believe how difficult a letter carrier's job is, spend a day or two with us next winter."

Many who replied objected to the fringe benefits afforded federal employees. Mrs. Jay Hooten, secretary of Hooten Equipment Co., Inc., Springdale, Ark., says:

"Federal fringe benefits are very much overdone. If these benefits were cut to parallel industry, we could pay the salaries of one and one-half persons for every 24 people presently employed."

Ann K. Oakley, owner of Ann's Secretarial Service, Custer, S.D., argues that "federal employees pay dearly for their so-called fringe benefits. Seven percent of gross income goes into a retirement fund. They pay one third of

life insurance premiums and 60 percent of accident and health premiums. Many private companies provide these at no cost and also offer profit-sharing plans."

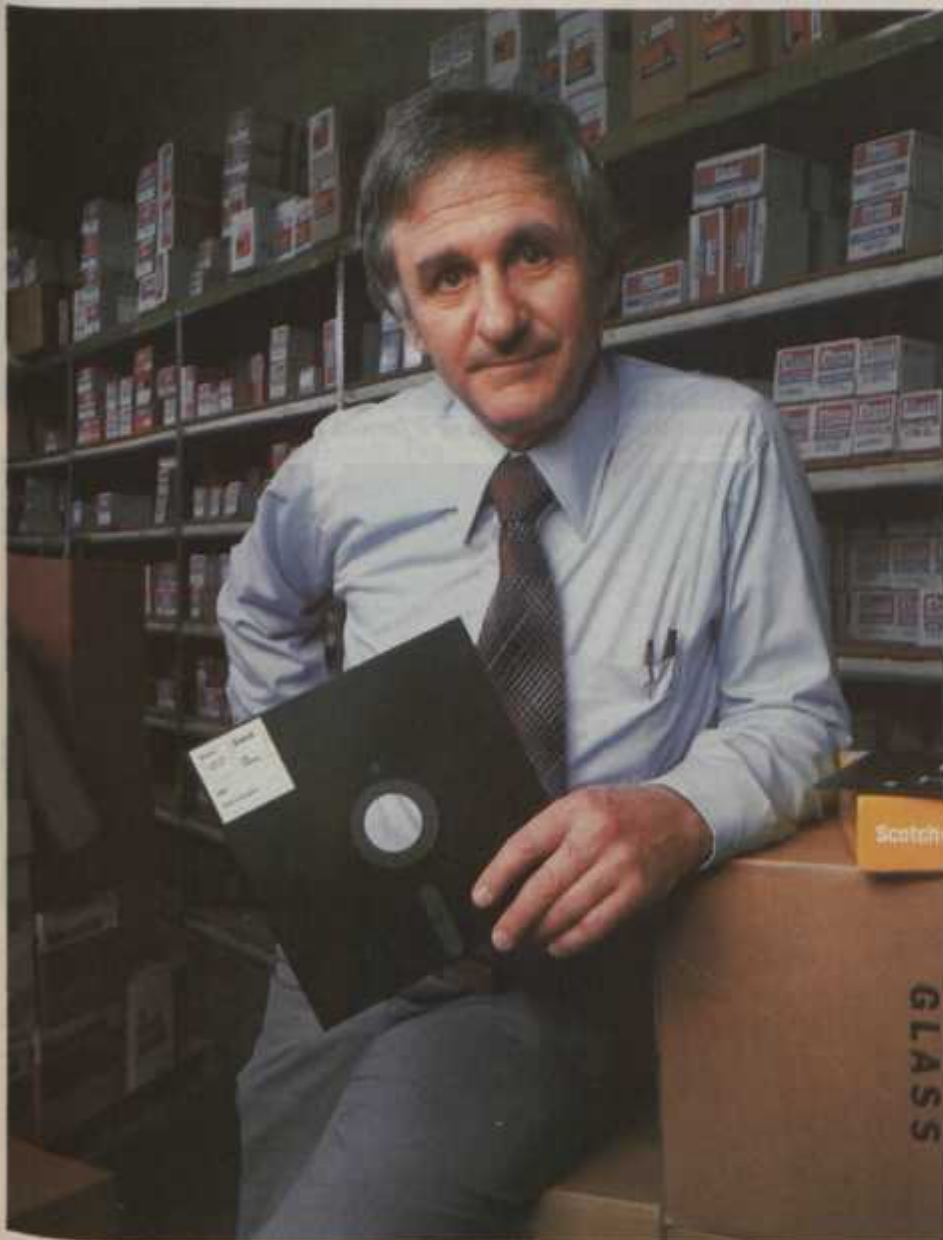
Guy LeGrand, sales manager of Jackson Hardware Supply Co., Birmingham, Ala., resents federal workers' exemption from social security taxes. "I think all federal employees should have to pay social security taxes," he says, "or they should be barred from drawing the benefits even if they work in private industry after retirement."

Small businessmen fear losing employees to federal jobs. "We are a small business with good employees, but we cannot keep them due to the ever-rising pay scale of the federal sector," says J.E. Penrod, manager of Photo Science, Inc., Gaithersburg, Md.

Raymond Bissonnette, owner of Bissonnette Advertising, Danbury, Conn., sums up a national sentiment when he agrees that federal workers are overpaid. He adds: "And so are magazine editors, street cleaners, bartenders, plumbers, and all others except advertising people—we are definitely underpaid." □



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## Business Life-Style

PHOTO: DAVE HODDER—UNIPHOTO



*Summertime pleasures.*

PHOTO: A. PIERCE BURNS—UNIPHOTO



*Many gardeners start with young plants from the local nursery.*

PHOTO: EVERETT C. JOHNSON—LENSMAN



*Not everyone can maintain the perfection of a formal garden.*

PHOTO: MACIEL SHEPPI—UNIPHOTO




*The regal rose is the most popular of all flowers.*



*Jim Crockett's weekly television show aired by the Public Broadcasting System is a must for millions of avid gardeners.*





## GARDENING:

# Beauteous Blossoms and Abundant Bounty

By John Costello

**F**ERDINAND THE BULL, a famous Disney cartoon character, was really a nice guy who loved flowers.

Many, many Americans feel the way Ferdinand did about those colorful, fragrant ornaments that a loving, lavish Creator has scattered over all the earth.

But Ferdinand may have given horticulture a bad name. He was very bashful and somewhat prissy. And flower-growing isn't a sissy hobby.

**T**AKE Junne Johnsrud, for example. She runs two bars in Fort Benton, Mont., a two-fisted cowtown whose people are more at home in chaps and spurs than in gowns or tails.

But says Mrs. Johnsrud, flat out: "I've won enough ribbons in state and county flower shows to make two big quilts out of 'em."

And in the morning, when she leaves her home to open up the Pastime Bar or the Banque Club, and looks back at the flower beds in her yard, she doesn't sweet-talk the tender shoots struggling up through the tough Montana soil.

No, sir. She growls a pep talk that's pure Vince Lombardi. "Grow, you little sons of guns," she says. "Grow!"

Who gardens—and why? That friend of the soil, the U.S. Department of

Agriculture, says about 35 million households harbor a gardener.

That's nearly one household out of every two. They spend an estimated \$11 billion on seeds, fertilizer, pesticides, and other gardening needs, including tools.

About a third says that growing fruits or vegetables is a hobby providing pleasure, pride, and satisfaction. Other home gardeners dig, plant, hoe, weed, spray, prune, and pick for different reasons.

Some want to stretch the food budget. Others prefer homegrown fruit and vegetables to store-bought.

**B**UT FOR EVERY American who grows tomatoes, beans, berries, or melons as a hobby, many more grow flowers.

"The usual estimate," says Dr. Henry M. Cathey, former president of the American Horticultural Society, "is about 80 million."

Dr. Cathey, chief of the Florist and Nursery Crops Laboratory of the Agriculture Department, adds that the exact number is hard to nail down.

"Many people who grow flowers," he says, "don't even claim it's a hobby."

Apparently, when spring arrives, digging up a little patch of ground, making a shallow furrow, and drop-

ping in some seeds—or starting a flat of annuals—is almost a reflex to millions of Americans. It comes naturally, like breathing.

**T**O THE CHINESE, this is the Year of the Sheep. On Wall Street, some fear, it may be the Year of the Bear. And in Washington, others assert, it will be—as usual—the Year of the Bull.

But to Americans who share Frank Benardella's hobby, it's the Year of the Rose. Did this fact escape your notice? If so, Mr. Benardella thinks that's odd.

"It was so designated by a group of horticultural organizations," he explains. "But many people have backed this Year of the Rose thing."

"Recently, the FTD—Florists' Transworld Delivery—took a poll to pick America's favorite flower. The rose came way, way out on top."

Mr. Benardella, who is manager of product development at H. Goodman & Sons, Inc., Kearny, N. J., is also president of the American Rose Society. He lives in a big, comfortable house in Old Tappan, N. J.

"It's an old town," he says, "but a very nice town."

**H**IS HOME is not the average suburban retreat. The Benardella residence has a big barn with seven stalls, a paddock, riding arenas, and four saddle horses.

"Both my daughters ride," he says.

House and grounds are also stirrup-deep in roses. Mr. Benardella has more than 1,000 bushes—all colors, sizes, and fragrances—planted on his three and a half acres. Roses and horses, it seems, go well together.

The Benardella blooms have taken many top prizes, including the Earl of Warwick Urn. Its equivalent in yachting circles is the America's Cup.

He attributes much of this success to the by-products of the stables. "We recycle everything," he says. "It's great for roses."

What kick can you get out of tending a thousand thorny climbers, floribundas, grandifloras, hybrid teas, and miniatures?

"I'm out there with them every eve-



ning," Mr. Benardella says, "from late March or early April until October. But I spend more time looking at the roses than working."

"Besides, it's also a hobby that can bring a lot of enjoyment to others. When I take a dozen beautiful, long-stemmed roses to the office or to a friend's home, as I often do, it's always appreciated."

"What other hobby lets you do that for others, unless perhaps it's gourmet cooking?"

**D**ELBERT R. DUNBAR'S garden is a traffic stopper. You can see it from the highway that runs from Toledo's municipal airport past his home in Delta, Ohio.

A lot of drivers don't get by it. They pull over on the shoulder of the road to gawk. The garden has become a local tourist attraction, drawing 3,000 to 4,000 visitors a year. In summer, people drive from Toledo just to see the brilliant floral display, cascading like a river of color down the six terraces that descend from Mr. Dunbar's home to a grassy savanna 30 feet below.

In 1976, the garden of Delbert Dunbar won honorary membership in the Royal Horticultural Society of Britain. In 1978, Bedding Plants, Inc., an industry association, selected it as annual garden of the year.

"It's probably one of the finest in the United States," says Dr. William H. Carlson, executive secretary of the association, "public or private."

Each spring, Delbert and Dorothy Dunbar plant about 8,000 annuals in their garden. That number of plants takes planning.

Late in the summer, the two sit down at their kitchen table to lay out next year's version.

"We have pictures of the garden spread out in front of us," says Mr. Dunbar. "We'll look at them and de-



Show winners reap prized ribbons.

cide what to do next year. We like to change the color patterns and try new plants each year."

His wife, he admits, is pretty much the designer. They order their plants from a local nursery. Come spring, with a little help, they plant the begonias, impatiens, and other annuals themselves.

Mr. Dunbar, vice president of the family-owned Dunbar Drilling, Inc., is also a past president of the Men's Garden Clubs of America.

He finds his hobby relaxing. Talking about it, he sounds like a golfer describing how a round helps him unwind.

"When I have a busy day at the office," he says, "I can spend two, three, or four hours out in the garden after dinner, come back in the house, and sleep like a baby."

**O**NE PERSON'S NYTOL is another's magic carpet. For Lucile Mauntel, gardening has been a round-trip ticket from Washington, Mo., to almost every corner of the globe.

It all began, she says, in 1939, when her hometown, the Cornucopia Capital of the World, celebrated its centennial.

"My friend, Eleanor McClure, and I," she says, "worked on a history of the town. We spent endless hours collecting pictures, checking courthouse records, and interviewing older citizens."

"We had a wonderful time."

"Then, when the centennial was over, we thought about what we would do to fill our days with other interesting and absorbing projects."

The upshot was the Washington Garden Club, with Eleanor as president and Lucile as secretary.

Lucile went on to become president of the National Council of State Garden Clubs. With more than 400,000 members, it is the world's largest gardening society.

**A**S PRESIDENT, she visited garden clubs in every state. That whetted her appetite for travel.

"About 12 years ago," she says, "I organized the Lucile Mauntel Tours. We have visited Africa, Asia, Europe, Australia, New Zealand, South America, and the South Pacific."

"This spring, Indonesia."

Originally, Lucile Mauntel Tours took off three or four times a year for faraway places.

"Now," she says, "we make about two tours a year."

That leaves her a little more time

for the family's pride and joy—the family farm, Arboretum.

"It's seven miles west of town, 350 acres of good farmland, on a high bluff overlooking the Missouri River. There's a lovely, big, old house, built before the Civil War."

And, of course, a garden.

**I**N SUMMER, you'll often see Edward E. Weeks head for his garden, carrying a bathroom scale. The sight no longer shakes up his neighbors.

They know it's a sign that Mr. Weeks may be on to something big. He holds the record for the world's largest watermelon, the world's largest cantalope, the world's longest watermelon and—going from the sublime to the ridiculous—the world's longest peanut. It's three and a half inches long. The watermelon was four feet.

They're all in the *Guinness Book of World Records*.

"I've always enjoyed just seeing how large I could grow anything," says Mr. Weeks, a former farmer who is now a prosperous seed merchant in Tarboro, N. C. "I got more enjoyment out of that than I did just getting out there and working on the farm putting in tobacco, soybeans, and corn, sweating in the fields."

"There's no enjoyment in just hard work. There is enjoyment in accomplishing a goal."

**H**IS FAME AND FORTUNE began with seeds from his daddy, after the elder Weeks quit farming.

Those seeds regularly grew king-size melons weighing 70 to 80 pounds. By crossing strains, Mr. Weeks developed the variety that bears striped green giants weighing 100 pounds and up.

"It's now officially known as the Weeks North Carolina Giant."

The neighbors were always borrowing Mr. Weeks's seeds.

Maybe, it occurred to him, people would pay for them.

In 1966, he took out an ad in the *Progressive Farmer* for \$600—"a lot of money for me then," he says. The ad offered 12 seeds for \$1.50.

"The orders paid for the ad when the magazine reached subscribers in only a few southern states."

Now, Weeks Seed Co., Inc., is a flourishing enterprise. Its motto: "We grow 'em bigger and better for you."

**C**OMMERCIAL SUCCESS wasn't enough for a gung-ho gardener like Ed Weeks.

Since 1935, Hope, Ark., had held the



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## 67TH ANNUAL MEETING PROGRAM (register today!)

### SUNDAY, APRIL 29

10:00 a.m.-2:30 p.m. National Chamber Exhibits and Displays.

4:00 p.m. National Chamber Reception.

### MONDAY, APRIL 30

7:00 a.m. \*Monday Breakfast: "Small Business—Big Clout." Arthur Levitt, Jr., Chmn., American Stock Exchange.

9:15 a.m. First General Session: "Constructive Action for a Progressive Future." U.S. Marine Corps Band, Color Guard, Drum and Bugle Corps.

12:00 noon Four Concurrent Luncheons (choose one):

- ☐ "Tax Policy: Help or Hindrance to Investment?" Sen. Russell Long (D-La.).
- ☐ "Getting Government Off Our Backs: Regulatory Reform." Andrew Rooney, CBS-TV, Moderator, Rep. Elliott Levitas (D-Ga.). Douglas Costle, EPA Adm.
- ☐ "Strengthening Business Political Action." Bob Clark, ABC, Moderator, Rep. James Corman (D-Cal.).
- ☐ "Guess

Who's Coming to Your Board Meeting: The Federal Threat to Corporate Management." Pat Buchanan, NBC, Moderator, Harold Williams, SEC Chmn. Ralph Winter, Yale University.

2:30 p.m. Second General Session: "Global Outlook for the 80's." George Herman, CBS, Moderator. Rod MacLeish, CBS, Sec. of State Cyrus R. Vance

\*Evening Congressional Dinners/Receptions (for details, call National Chamber. Ticket prices arranged by state chambers and associations).

### TUESDAY, MAY 1

7:40 a.m. 67TH ANNUAL MEETING BREAKFAST: "The Values of America."

9:30 a.m. Concurrent Special Sessions (choose one):

- ☐ "Governmental Administration of Wages & Prices." Bill Monroe, NBC.
- ☐ "Labor, Management and the 96th Congress." ☐ "Small Business Exports—A World of Opportunity." Irving R. Levine, NBC.
- ☐ "What Chambers Must Know About the Law."
- ☐ "World and U.S. Business Outlook."

12:00 noon General Luncheon: "The



Melvin Laird



Harold Williams



Sen. Russell Long



Andrew Rooney



Rep. James Corman



Irving R. Levine



# MAKE THE NEWS

Washington, D.C.  
April 29-May 1, '79

Inflation Fight: Three Views." 2:30 p.m. **Third General Session:** "The Impact of Individual Action on Public Policy." The Hon. Gerald Ford, The Hon. Melvin Laird, George Will, columnist. 6:30 p.m. **"The Gala":** Annual Reception and Dinner. Tex Beneke and Orchestra.

## \*SPECIAL EVENTS (check choices)

### MONDAY, APRIL 30

- ☐ 12:00 noon-4:30 p.m. **Tour of Embassies** with lunch. \$26 per person.
- ☐ 1:00-4:30 p.m. **Tour of Georgetown** and the Department of State reception rooms with lunch. \$26 per person.

### TUESDAY, MAY 1

- ☐ 9:30-11:30 a.m. **Women of Washington:** A panel discussion with Q/A period. \$8 per person.
- ☐ 12:00 noon-4:00 p.m. **A Parade of Fashion:** Bloomingdale's and fashionable White Flint Mall. Box lunch on bus. \$16 per person.

\*Not included in package price.

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4/79





Edward Weeks and his family grew these monster melons.

record for the world's largest melon, a 195-pounder.

"On the way back from a visit to Texas in 1975, I stopped in Hope and challenged them to see who could grow the biggest melon that year."

At first, he says, Hope was game. Then, Hope backed out. "They discovered that Arkansas farmers had been buying their seeds from me."

But a man from the local newspaper said that if Mr. Weeks grew a melon larger than 195 pounds, Hope would have to accept that.

**T**HAT REMARK WAS a tactical error. "At first, all we wanted to do," says Mr. Weeks, "was grow a bigger melon that year than Hope's farmers did. But then, we set our sights higher."

"Every night, my wife, my two boys and I would pray. 'Lord,' we'd say, 'give us a melon that weighs more than 195 pounds.'"

"And He did!"

"In August, 1975, when I pulled a 197-pound melon off the vine, I had it weighed by the county agent's office. Our congressman, L. H. Fountain, was also there to verify the weight."

"But you know what? Hope, Ark., wouldn't accept it. 'They said: 'Who believes a congressman, anyway?'"

**J**UNNE JOHNSRUD is second vice president of the National Council of State Garden Clubs and much in demand as an instructor in flower arranging. Like Mr. Dunbar, she plants lots of flowers, but not annuals.

Last fall, she put in 400 irises. When she was chief cook and bottle-washer at a ranch near Fort Benton, she put in 400 gladiolus—every year.

"We've got a lot of space out here,"

## A Guide to Great Growing

In the spring, a gardener's thoughts turn to the soil. But he or she really should have been thinking about the garden months before.

At the end of the previous summer, the experienced gardener will have selected well-drained plots that receive six to eight hours of direct sunshine daily. Heavy tilling is done in the fall, so the soil can break down during the winter. Depending on the results of soil analysis, nutrients are also dug in during the fall.

All winter long, the seed catalogs offer tantalizing visions of what might be. Early ordering means the gardener will not be disappointed. Several large seed companies reward early birds with bonus seeds or discount prices. Impatient gardeners who can't wait until the ground warms for direct planting grow seedlings under lights. But don't start too early. A good rule is six weeks before transplant time.

The better the seed, the better the result. Always buy seeds from a reputable company, avoiding the special offers from unknown firms. All-American selections will cost a little more but will produce the best plants.

Some seeds are hard-coated and will germinate better and faster after being soaked in warm water.

Other seeds germinate better after freezing. Using ice trays, freeze several seeds in each cube, store in plastic bags, and plant the frozen cubes directly in the ground when the time is right.

Also, hard-shelled seeds benefit from stratifying—file, nick, or chip the seed opposite the eye before soaking.

What to plant depends on each gardener's capabilities, the geographical area, and growing conditions.

Sunday gardeners who want quickie planting should consider seed tapes. These are more expensive, but require no thinning out. Also, some gardeners start with garden-ready plants. Again, buy from a reputable nursery and have the beds well prepared.

After planting, remember the mulch. This cuts back on weeding, preserves soil moisture, enriches the dirt, makes for better appearance, and results in a better product for the table, whether vegetables, fruit, or flowers.

After seeding and thinning, you'll soon be watching for insects, diseases, and critters. Each of these is handled in a different manner. Don't use an insecticide when a fungicide is needed. That's like taking castor oil for a cut finger. Also, maintain a careful watering schedule. If you're going on a vacation, be sure to leave a concerned person in charge of watering.

Gardening is really quite simple if you don't overextend yourself. Having a large, weed-infested plot in midsummer will discourage the most avid gardener. Staking and harvesting vegetables should be a pleasant chore, not a burden. Remember, gardening is for fun and relaxation as well as beautiful flowers and good eating.

Yolanda N. Wanek  
Past President  
Missouri Federation  
of Garden Clubs

says Mrs. Johnsrud. "You've got to fill it up."

She flies all over the United States to instruct classes in flower arranging. "When I cut out of Boston or Washington," she says, "I look down on all that crowded, teeming society scrambling for existence. Then we fly over the Badlands toward Fort Benton."

"You don't see any people anywhere. Even a jackrabbit has to pack a lunch."

"I look down and say: 'By God, I hope they never find us.'"

Gardening, like other hobbies, offers challenge, creativity, recognition and reward, opportunities to see the

world, and a way to escape the rat race. In addition, it has something all its own.

**O**N A WARM SPRING day, there's the feel of soft, sun-warmed soil. It runs through your fingers like the sands of an hourglass.

One gardener, sweaty from spading his clay soil, mixing it with humus, sand, and topsoil, caressed the now rich, dark, soft earth.

"I don't think I'd mind being in there myself," he said to the asters and marigolds-to-be, as he gently tucked them in. □



# What's your best chance to make money in real estate?

## The answer below may surprise you.

My name is Charles Edwards. I'm a licensed real estate broker—not an advertising writer.

There is a unique new way to make a substantial second income in real estate and it's just beginning to surface among brokers. I'm not speaking of buying apartments or flats. The business I'm referring to is PMC—Property Market Control.

The reason it's becoming so popular so rapidly is that it gives the middle-income investor an opportunity to make excellent profits—without actually buying property. No mortgage obligations. No large investments.

### CONSIDER THESE FACTS:

- You don't have to buy so called "rental properties" to make money. Rental properties create some real headaches. First you have repair costs . . . a leaky roof, a new furnace, and heavy tenant liability costs. Then there are the personal interruptions . . . complaints, evictions to serve and telephone calls at 1:00 a.m. about a clogged drain. PMC eliminates these problems entirely.

- You can begin with only \$50.00-\$100.00 out-of-pocket investment yet control the sale and earn the profits from real property in the \$45,000-\$75,000 range.

- As a result of holding property in control (rather than outright purchase) you can reduce or eliminate the yoke of mortgage indebtedness altogether. This feature alone makes this a very attractive program for almost everyone on a fixed income.

- You eliminate the responsibility for building maintenance.

- You eliminate all utility indebtedness.

In sum, it's an ideal method for anyone who seeks high profit potential but a hassle-free income from real estate.

To illustrate how this method works, here are some actual cases of average people—not professional businessmen—who have profited from it, just as I did.

- Jennie Lashin, a housewife living in Western Tennessee, used only \$500.00 and PMC to obtain income property—no mortgage, no complications. But, a few years later, she sold this and several other properties for a net profit of \$40,000.00.

- Matthew Sutherland from Georgia did even better. A few years ago he was up to his neck in debt. He and his wife scraped together \$300.00. Using PMC

they made a net profit of \$50,000.00 and still maintain current holdings to reduce tax liability. But, most importantly, Mr. and Mrs. Sutherland never borrowed a single penny to finance their property. They did it all using Property Market Control.

- Jerry Doyle, a gas station operator from Arkansas, began using PMC in 1971. A few years later he sold the gas station and "retired." He and his wife, Tina, now enjoy life in a beautiful home overlooking their 100 acre estate. What's more, they still control property in Arkansas, Florida, Missouri and Minnesota and are planning a second home in Florida—all by using the leverage of PMC.

### \$700,000.00 WITH PMC

- I must emphasize that this is not some kind of get rich quick scheme. It's a business and as such, it's speculative. But the profit potential is staggering. Consider my friend B. L. Tulley. He quit school at the end of the fifth grade, and was blinded in an accident in 1965. He had no special knowledge or influence—not even a trade to ply. But, by using PMC (and only \$500.00) he made over \$700,000.00 and still "controls" over more than 3,000 acres of property in the U.S. and Canada.

Obviously, I can't guarantee you'll make as much money as these folks. Then again, you might make more. It depends upon your initiative, and current market conditions.

### EASY TO BEGIN

One of the best features of PMC is that you won't need a lot of starting capital. You can begin with as little as fifty dollars. In just one series of transactions I used only \$500.00 to make a clear profit of \$19,000.00.

You can do this quietly—discreetly—without quitting your present job. It may require 30-60 minutes a day—occasionally a weekend afternoon.

You don't need a degree in business administration. PMC is a relatively uncomplicated business that can be mastered by following a few simple rules.

Best of all, you don't need to wait for months to begin. You can actively begin within 30 days.

In practice, this is a fairly localized business. I won't be competing with you nor you with me.

My materials will show you step-by-step how to begin. For example:

- How to "market control" and sell

\$50,000.00 properties for only \$50.00 with no mortgage commitment on your part.

- How and where to get special FREE BOOKS with current listings of top investment properties from Newfoundland to Baja. All details are included—asking price, description, and terms of sale.

- How to avoid the problems of tenants, vacancies, high insurance costs, and all the other grief of so-called "rental properties".

- How to actually buy properties (when it's advantageous) with as little as 2% down—only \$1,000 on a \$50,000.00 property.

- How it's possible to double the profit on your out-of-pocket dollars within 90 days.

- How to retain 60% of your profit on properties you actually purchase—not just tax sheltered profit—but totally free of State and Federal Income Tax.

### MONEY-BACK GUARANTEE

I'll send you a copy of my book, **Property Market Control**, for 90 days without obligation. A full three months.

This way you have sufficient time to read it . . . and actually try it. If you're not satisfied, simply return the materials and I'll send you a full refund within 3 working days—no nonsense, no delays.

Our publishing offices are located in Dunkirk, New York. We belong to the Dunkirk Chamber of Commerce. Our telephone number is 716-366-8300. We're there from 9 to 5 on week days.

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To receive your copy, just write the words **Property Market Control** on a piece of paper and send it to Green Tree Press, 10576 Temple Road, Dept. 128 Dunkirk, New York 14048, together with your check or money order or charge card instructions for \$12.95. If you wish AIR MAIL delivery, please add one dollar.

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# A \$636,000,000 raise is tough to ignore.

In 1975, the advertising industry invested \$1,329,000,000 in magazines. In 1977, the figure was \$1,965,000,000.

That's a leap of 48 percent in just two years. And the trend goes on. The fact is, 67 of the top 100 television advertisers increased their magazine advertising investments in the first half of 1978.

And they did it for one very good reason: more and more advertisers are making it their business to re-examine the efficiency and the effectiveness of their media investments.

Make this your year to re-evaluate the balance of power between television and magazines in your media planning.

Let the Media Imperatives\* research concept help you determine your most effective media balance based on media market potential.

And let the Magazine Publishers Association offer you an I.M.S. computer run based on your prospects and your data.

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575 Lexington Avenue, New York, N.Y. 10022. (212) 752-0055.

\*Source: P.I.N./I.N.A. • W.H. Baitmore Co.

## Magazines. The balance of power.

# MPA





Joe Piscopo and son Thomas... a computer is just another machine.

## Making Friends With Demon Computers

Joseph A. Piscopo is a computer exorcist. Not that he vanquishes real demons; rather, he dispels the mystery and chaos that can bedevil computer systems and users.

Ten years ago, Mr. Piscopo started Pansophic Systems, Inc., in Oak Brook, Ill., to offer Chicago-area firms computer software and systems design and programming services.

Part of his success comes from his exorcist attitude toward clients.

"Computers are simply hunks of metal, nuts and bolts, wire, circuits, and pieces of plastic," Mr. Piscopo tells them. "That's all the hardware. The software, which my company sells, is intelligence. You can't see it, touch it, taste it, or smell it. But you can sell it for \$15,000 or a cassette, and some companies pay millions for it."

Computers are not designed as cost savers. Anybody who claims that is propounding a myth, Mr. Piscopo explains. "To save money by putting a company payroll on a computer you would have to

eliminate the jobs of about 300 payroll clerks. You will always spend more money when you get a computer," says Mr. Piscopo. "But with proper planning and understanding, you can get your money's worth and then some."

Another myth he attacks is that computers are always making mistakes. A typical sign in a computer room says: To err is human. If you really want to foul things up, use the computer. "I don't blame things on computers," says Mr. Piscopo. "The programmer is wrong, not the computer. One tiny mistake will be multiplied a zillion-fold by the computer, which is why it gets blamed for human error."

Mr. Piscopo says that computers are really quite simple. The operation is based on two numbers, zero and one.

"Everything on earth is a dichotomy," says Mr. Piscopo. "It's either yes or no, hot or cold, up or down, big or little. So a binary language makes sense. You wouldn't want to print a newspaper in it because it is not a people language, but it's perfect for a machine."

What propelled Mr. Piscopo into computers? Did he have a rich uncle? "I have an Uncle Emil," says Mr. Piscopo, "but he wasn't rich then. He just knew a lot of rich people. He was a professional

baseball player. He persuaded people to invest in my ideas. He raised \$150,000 to start the company. Today, he is chairman of the board."

Mr. Piscopo is no mathematical genius to whom the intricacies of calculus are child's play. "I was the University of Illinois's all-time low-C student," he says.

Computing fascinated Mr. Piscopo because of its logic, proceeding step by orderly step to a rational conclusion. "The lesson that has stayed with me from college came from an assignment we were given in one of the computer courses," says Mr. Piscopo. "We had to write down every single step of getting up in the morning and coming to class. Starting with the body's subconscious decision to open the eyes.

"If the door is open, a human being doesn't make a conscious decision not to open it. But a computer does; it has to make every choice. Good programmers realize this. They anticipate the consequences of every choice available to the computer."

Computers are here to stay, says Mr. Piscopo. IBM has already built the computer of 1990 and is looking ahead to the 21st century. Pansophic is also here to stay; it is one of a handful of companies that survived the economic recessionary purge of software firms throughout the 1970s. Today, the company employs 180 people in most principal U.S. and international cities, and sales have climbed past \$10 million annually.

"The new horizons that computers open up are infinite," says Mr. Piscopo. But some of the biggest fiascos have been perpetrated under the delusion that the computer is God's greatest gift to mankind. It's not. It's just another machine." •

## Before You Sell Abroad, Check Your Insurance

Robert A. Keenan is no ordinary insurance man. He is not interested in whether your car has six or eight cylinders, when your home was built, or what kind of teeth your twelve-year-old has.

All Mr. Keenan wants to know is what countries you want to export to and how much credit you want to extend to which



buyers. Mr. Keenan is president and chief executive officer of the Foreign Credit Insurance Association, set up in 1961 to insure U.S. exporters against credit losses, and in the process, give them a competitive edge in outselling exporters in other nations.

"Overseas, the onus is on the buyer to come up with the cash or a letter of credit before the goods will be shipped," says Mr. Keenan. "Exporters who insist on cash before shipping cannot compete with exporters who extend favorable credit terms. That's where we come in. It's strange, but a good many large U.S. companies that wouldn't think of demanding cash payments domestically wouldn't think of granting credit terms for their exports."

**The reason is that Americans are not accustomed to thinking internationally. Ever since the isolationist days of the Monroe Doctrine, America has been here, and the rest of the world has been "over there."**

"Europeans think in international terms," says Mr. Keenan. "It's just the nature of their mentality. The Swiss are born with three currencies."

How does FCIA know what foreign buyers will pay their debts and what countries are safe from currency devaluation, political upheaval, or economic deterioration? Who decides the premium?

"The rate tables were originally adapted from those used by Great Britain's counterpart to our Export-Import Bank, called the ECGD (Export Credits Guarantee Department). It has been doing business abroad since the time of the Empire," says Mr. Keenan.

"We travel a great deal," he adds. "We rely on the commercial attaches in the U.S. embassies abroad, the World Trade Data Reports put out by the Commerce Department, and the exporter himself who makes credit decisions."

FCIA has no competitors, except that in a flush money market the banks will take more risks for an exporter, and co-operates with Eximbank in covering political risks as well as commercial risks for exporters.

In fiscal 1977, FCIA, which comprises 53 major insurance companies, insured \$5.2 billion worth of shipments abroad, about eight percent of the available market, says Mr. Keenan. FCIA also offers a small business policy to firms whose annual export volume does not exceed \$200,000 in exports; it covers sales for both short-term and medium-term credit up to five years.

What happens to credit when a government falls or a currency loses its val-

ue? Mexico, newly reenergized by its oil and gas resources, "went kaput in September, 1976," says Mr. Keenan. "Everybody knew that Mexico was going to have a problem with its currency. It was just a question of when. One day an importer owed the exporter a dollar; the next day he owed two dollars."

"We worked carefully with Mexican buyers and American firms, extending the payment schedule wherever possible, giving the Mexicans time to repay, thus avoiding losses to exporters."

"We couldn't abandon the market. It is too strong, as subsequent events have shown. The peso is working its way back up. You have to have faith sometimes. But we also had to pay out more than \$2.5 million in claims. We can't afford too many like that," says Mr. Keenan.

A typical insurance man can't afford any like that. •

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## A Man Who Can Say No Nicely

Robert L. McCleary knows how to say no gracefully. A consumer affairs manager for the Corning Glass Works in Corning, N. Y., he doesn't say no a lot. But there is a real skill in telling a complaining customer that Corning cannot replace the Pyrex dish she threw at her husband, because the warranty doesn't cover it.

"Most people don't like to complain. It is uncomfortable," says Mr. McCleary. "It takes a lot of anger for a person to write in about a \$1.29 pie plate."

Corning was into consumer affairs back in the days when the term was still unborn. Dr. Lucy Maltby believed that customer service is just good business, and she convinced the Corning management that contented consumers were as important as weekly sales figures.

"She left us quite a legacy," says Mr. McCleary. "During World War II, servicemen who had no way to get a Christmas present to their Moms would send \$5 to Corning and ask the company to send a present. Many of those letters would arrive too late for the gift to reach the mother by Christmas, so Dr. Maltby would call and tell the mother she had heard from the son. You can imagine the kind of impact that had on families."

Corning does not consider the bottom line when financing consumer affairs. "We have been blessed with quality folks who care more about the business and the community than whether they

make a buck or not," says Mr. McCleary. "I am sure they care about profit, but they would not bend the image to improve the profit."

The art of saying no used to be taught at every finishing school worth its Social Register listing. "One of the most difficult things is to have someone respect you for saying no," says Mr. McCleary. "We are not running a giveaway program. We want consumers to understand that they don't have a right to replacement except under warranty. We give sensitivity training to our consumer affairs staff. The same response to ten people will elicit a different feeling in each one."

Mr. McCleary has spent 20 years with Corning, starting in the foundry and moving up through the engineering ranks. If there is one thing he knows besides how to say no it is Corning's product line. He knows exactly what every product can and cannot do.

**"There are only so many things you can do to a measuring cup," he says. "If you want to know how strong your tableware is, you pick a family with five or six teenagers who hate all dishes because they don't have a dishwasher."**

Mr. McCleary likes to tell the story of the bull in the china shop. A number of years ago, Corning had a television ad that showed a Black Angus bull on a rampage among the crockery. Afterwards, people went around and picked up all the pieces, including Corning's tableware. Not one piece had broken, of course.

"Today, we probably wouldn't be able to run that ad," says Mr. McCleary. "Somebody would sue us because he got gored by a bull while demonstrating the tableware wouldn't break or something. There is a point of diminishing returns in everything."

That's when Mr. McCleary says no. □

**Robert McCleary ... most consumers really don't like to complain.**





# STEEL:

## The Girders of American Industry Need Reinforcing

By Tony Velocci

Nation's Business  
**INDUSTRY  
SPECIAL  
REPORT**



Bethlehem Steel's modern combination rolling mill in Bethlehem, Pa., turns out 250-foot lengths of structural steel shapes at the rate of one a minute.

**I**N 1750, 22 years after the first steel patent was granted in America, England passed an edict forbidding construction of any more colonial ironworks. Fortunately, most of the illegal furnaces were located in such remote areas that it was all but impossible for the English to enforce the decree.

When the colonists finally rebelled, seven ironmasters, who produced about

14 percent of the world's 210,000 tons of steel, were among the signers of the Declaration of Independence. The new nation steadily increased its steelmaking capacity and by 1886 led the world with 2.5 million tons.

The heavy metal that archeologists believe was first produced by accident emerged as the skeleton of America's industrial power. Today, steel ranks as

perhaps the most vital material serving people everywhere.

Although it is fabricated into thousands of products, only four basic methods shape steel. It can be rolled, compressed, cast from molds, or forced through a die, much like squeezing toothpaste through a tube. Rolling produces the most tonnage and the greatest diversity of finished products, ranging from cars to cans.

### Repeated refining

Steel's major ingredients are coal, limestone, ferrous scrap, and iron ore. Coke, which is produced by heating coal to high temperatures in the absence of oxygen, provides the necessary carbon and fuel for ironmaking, the first stage of the steelmaking process. What follows is a series of steps involving the repeated heating and cooling of the ingredients to separate impurities, refine the metal, and achieve the chemical composition needed for high-quality steel.

The actual refining is done using an open hearth, basic oxygen, or electric furnace. Open-hearth steelmaking, developed in 1868, dominated the industry until 1969, when the basic oxygen furnace was introduced. The latter, which consumes large quantities of oxygen, now accounts for about 60 percent of U. S. steel production.

In modern electric furnaces, electrodes furnish the current to melt a solid metal block, usually composed exclusively of scrap. Electric furnace production of steel is up from 1.6 percent of U. S. output in 1927 to nearly 25 percent today.

### Annual payroll

The steel industry's contribution to the nation's economy is awesome. According to the American Iron and Steel Institute, 450,000 people are employed in the production and marketing of steel alone. The majority of the labor force is represented by the United Steelworkers of America, part of the AFL-CIO. Steel-





related jobs generate an annual payroll of more than \$10 billion.

The steel industry generally calls Pittsburgh, Pa., its birthplace. The city offered easy transportation, a plentiful immigrant labor force, and seemingly inexhaustible beds of coal and iron ore.

Fundamental changes in the techniques of producing steel led to the centralization of the industry in Pittsburgh. One was the use of coke, obtained from bituminous coal instead of charcoal, which was used prior to 1840. The other development was the Bessemer process. At the turn of the century, the city

vehicle industry uses about 24 percent of all steel and 56 percent of the malleable iron produced in this country.

Raw steel production in 1978 increased almost eight percent, to an estimated 135 million tons, compared with 125 million tons in 1977. Moreover, the steel industry's net income in 1978—around \$1.4 billion—was a welcome change from 1977.

But last year's performance is deceiving. Serious problems exist, and steel sources caution that within a decade, the country could be dependent upon foreign producers for much of its steel,

enter the United States averaged 14 million tons a year between 1973 and 1976 and 20 million tons during 1977. Last year, the Commerce Department established the trigger price mechanism which, in effect, set minimum prices for steel imports. The prices are based on the cost of making steel in Japan and shipping it to the United States.

Nevertheless, imports in 1978 rose to a record 21.1 million tons. The Commerce Department attributes the rise to hedge-buying by foreign countries. Japanese imports declined 13 percent in the first seven months of 1978, compared to 1977, but European imports increased 54 percent, and imports from all other sources rose by 31 percent.

### Steel trade deficit

Lewis Foy, AISI chairman, says that unless the domestic industry starts expanding its steelmaking capacity, an estimated 25-30 million tons of steel a year could be entering the U.S. market by 1985. That would mean up to \$15 billion flowing out of the country each year, added to the steel trade deficit, which reached \$6 billion in 1978.

Treasury officials acknowledge that imported steel was the second largest contributor, behind oil, to the nation's \$30 billion foreign trade deficit last year.

A spokesman for Bethlehem Steel, the nation's second largest producer, says: "In view of last year's imports, it's hard to be optimistic about the effectiveness of the trigger price mechanism. If our government continues to allow foreign producers to take an increasing share of the domestic market, I foresee the day when this country could experience a steel shortage."

### More costly imports

The trigger price for steel imports was raised by seven percent in January. The boost is substantially more than the domestic industry's average price increase of 3.2 percent and may reduce imports to a tolerable level.

Says Mark T. Anthony, president and chief executive officer of Kaiser Steel Corp., the seven percent increase "will give our steel operations a fighting chance."

It had better, because many steel-makers, including U.S. Steel President David M. Roderick, believe that imports will be one of the major factors controlling steel shipments this year. In turn, U.S. performance in 1979 will determine whether American or foreign producers will supply the expected increase in U.S. demand for steel in the 1980s.

"The trade outlook has to be viewed



Ribbons of steel from this hot strip mill are rolled into giant coils, which then go by conveyor belt to a storage area for cooling and processing.

was producing four million tons of steel annually, about a million short of England's entire production and 40 percent of America's steel output.

During the industry's early days, smoke became a symbol of prosperity, signifying that the mills were going full blast. As early as 1830, citizens met publicly to discuss what to do about the pollution, but it was not until after World War II that the city dealt directly with the problem, prodded by the Pittsburgh Chamber of Commerce.

Today, Pittsburgh is a clean city, a symbol of one of the most remarkable environmental success stories in American industry.

### Heavy machinery

In 1978, about 680 companies shipped an estimated 97 million tons of steel mill products, a six percent increase over 1977. Roughly two thirds of it was for heavy uses such as construction. In fact, solid increases in the construction and heavy machinery markets contributed to last year's gains in shipments. Although auto companies are scaling down the size of cars, the motor

just as it now depends upon foreign imports for nearly half of its oil.

"The survival of the steel industry is at stake," says analyst Eugene Frank, vice president of Parker-Hunter, Inc., of Pittsburgh. "We could bankrupt ourselves with the steel moves we're making. You can do without hamburgers, but you need steel."

What are the problems? Imports are up 9.5 percent. The debt-equity ratio is 45 percent, near the limit. The depreciation allowance is one of the longest in use. Environmental regulations are costing billions of dollars. Some raw materials are in short supply. And capacity may be unable to keep up with demand.

Explains the Rev. William T. Hogan, director of the Industrial Economics Research Institute at Fordham University: "A high rate of imports impinges upon the industry's ability to earn sufficient profits. Low earnings, in turn, impair the formation of the capital the industry needs to replace equipment, expand capacity, meet future demands, implement pollution controls, and compete on a worldwide basis."

The amount of foreign steel allowed to



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The solid charge that goes into a modern electric furnace such as this one is usually composed exclusively of scrap.



PHOTO: ARBED STEEL CORP.

Steel is fabricated into literally thousands of products, which come in many different sizes and shapes such as these angles and bars.



Steel analysts predict that construction will be among the most promising markets for the industry during the 1980s.

PHOTO: AMERICAN IRON AND STEEL INSTITUTE



White-hot steel in rod form is reduced in size by successive rolling. The semifinished metal will ultimately become wire.



A new car goes together on a Cadillac assembly line. Motor vehicles consume nearly a quarter of the steel produced here.



realistically, and without positive steps by the government, we can't expect imports to decline much from last year," says Mr. Foy. "The fact is that the big U. S. steel market, with its virtually unfettered access, acts like a magnet to the world steel industry."

### Capital intensive

Steel manufacturing is a capital intensive industry because of the cost of replacing and rebuilding facilities. In recent years, the industry has relied on a combination of retained earnings, new borrowing, depreciation, and depletion to obtain capital.

The sale of equity as a source has been virtually eliminated because of the industry's low profits. The industry's meager \$23 million earnings in 1977, for instance, was about one sixth of that of the largest hamburger chain. Although earnings in 1978 greatly improved, the average eight percent return on equity was still about half of that earned by the average manufacturing company. Earnings last year represented a return of about three cents on a sales dollar.

Depreciation, usually a major source of capital for most industries, contributes virtually nothing to the steel industry's money supply. Reason: By the time the industry recovers \$1 in tax depreciation, its replacement costs have risen by \$3.

AISI estimates that retained earnings, depreciation, and depletion produced a net cash flow of roughly \$2.5 billion last year. Capital expenditures, however, were about \$3 billion. An AISI study indicates the industry will fall short of capital requirements by more than \$1 billion a year over the next six years.

"The government must realize the steel industry needs a better break on its depreciation allowance," says Fr. Hogan. "Cash flow is essential to expanding capacity and meeting pollution control guidelines."

### Limited resources

Much of the capital the industry will need between now and 1985 will help meet environmental regulations. Steel executives are urging congressional committees to review clean air and water regulations that they claim represent "wasteful utilization of limited economic resources resulting in little or no environmental improvement."

Environmental control equipment in place at the end of 1976 represents an investment of nearly \$5 billion.

Says a U. S. Steel spokesman: "In 1978, we authorized about \$1 billion for new projects. Almost one third, or \$216 million, went for environmental controls."

During 1979, we will spend an additional \$322 million for environmental projects. All of it comes out of the cost of producing a ton of steel."

Looking ahead, the industry will have to spend an estimated \$3.8 billion between now and 1985 to comply with environmental regulations.

A shortage of some raw materials may be the industry's most immediate problem. Coke, the hot-burning processed coal that steelmakers use to fire their blast furnaces, is in short supply among independent U. S. producers.

Analysts predict that only about 48

U. S. steel consumption is now growing at about two percent a year. At that level, the domestic industry will have to spend an estimated \$38.5 billion for new and replacement equipment by 1985. The problem, however, is that the industry's projected cash flow through 1985 is only \$23.1 billion.

Says Jennings R. Lambeth, commercial vice president of Jones & Laughlin Steel Corp.: "With its debt-to-equity ratio and its stock selling below book value, steel has only one way to get money, through profits." That will be tough with a long-term debt of \$7.9 billion.



Marble-size taconite pellets, which contain about 65 percent iron, are mixed with limestone and coke at steel plants to produce pig iron.

million tons of the estimated 57 million tons of coke required by the steel industry will be produced this year.

A coke shortage could curtail steel production in 1979 if demand remains at the anticipated level. According to Jack D. Rice, vice president for engineering and construction at Koppers Co., a leading coke-oven builder, "we haven't had a new order from a steel company in over a year."

Last year, domestic producers operated at about 90 percent of capacity. With steel consumption rising both here and abroad, however, American companies must either expand their steelmaking facilities or lose an even larger share of their market to foreign competitors.

"For the United States to accomplish its economic goals over the next ten years, we will have to consume around 150 million tons of steel annually," says Mr. Frank of Parker-Hunter. "The industry's current shipping capability is 105 million tons. It will be no small chore raising capacity by 45 million tons."

"What happens if we have to import 45 million tons of steel in the late 1980s? It would break this country."

On a more positive note, the profit potential exists at home and abroad.

Various parts of the world will experience a surge in demand for steel mill products in the next few years, offering numerous opportunities for the United States. For example, Third World countries will more than double their net imports of steel, from 32 million tons in 1977 to 71 million in 1990, according to Chase Econometric Associates, Inc. In 1990, almost half will go to Asia alone, excluding Japan.

### Ready market

The next most important market will be the Middle East, which will double its imports to 25 million tons. Moreover, Latin American countries will triple their annual consumption.

American steelmakers have already found a ready market for steel technology. U. S. Steel and Bethlehem Steel, for example, have both been called upon to sell their engineering and consulting knowledge to China, which seeks to double its steelmaking capacity by 1985 from the 31 million tons it produced in 1978. But foreign competition is





strong and American steelmakers must solve their problems at home as well as tap foreign growth markets.

The Commerce Department predicts raw steel mill production in 1979 will increase four percent, with steel production increasing at a greater rate than shipments. The import share of the domestic market will fall by about 3.5 percent, the Commerce Department says, and the steel trade deficit by about \$2 billion. Inventories will be unchanged from last year's 9.9 million tons.

#### Lighter cars

The forecast for domestic steel shipments this year ranges from 94 million tons to 102 million tons, reflecting anticipated strength in the machinery, non-residential construction, and equipment markets.

Power plant construction is expected to explode in 1980, and sales of steel products to oil producers here and abroad are also expected to be brisk. As Detroit lightens cars to achieve a mandated 27.5 mpg fleet standard by 1985, steelmakers believe that an increase in truck sales will compensate for a no-growth car market.

"So far, orders through the first nine months of 1979 are excellent," says a spokesman for Bethlehem Steel. "It's

October and beyond where the picture gets clouded by variables such as the economy, imports, and raw materials."

What do these market forecasts mean? First, the current year could be the beginning of a very profitable period for steelmakers in which the industry's cash flow becomes large enough to finance expansion of facilities. Some industry sources speculate the industry could be on the verge of a boom rivaling that of the 1950s.

Also, in the years ahead, the United States will be an enticing market for foreign producers. If this worries domestic companies, they have good reason for concern: The number of steelmaking countries has risen from 20 to 80 since World War II and will exceed 100 by 1990.

#### Research and development

The domestic industry's basic strategy for meeting the challenge from abroad will have to include a lot more research and development. However, for an industry as capital intensive as steel, the current research and development investment is relatively modest because profits are still too small.

Says Armco Chairman William P. Verity: "We have to increase our spending in this area. It can only strengthen the

whole industry. Armco's R&D budget for 1979 is up sharply."

Much of the research and development will focus on more efficient environmental controls and a continuous steelmaking process. Eliminating some of the present cooling and reheating steps would save both time and energy.

No one doubts the ability of the U.S. steel industry to furnish the know-how needed to make the finest grade of steel in the world; financing it is another matter. Many economists and financial analysts believe the government holds the key to the industry's future through its regulatory and foreign trade policies.

"We have to face the fact that we need basic industry in this country," says Mr. Frank. "Is the government getting the message that steel is in trouble? I don't know."

Albert A. Monnet, Jr., U.S. Steel's vice president of corporate planning, says: "Our economy is the only advanced one in the world that has not had its infrastructure destroyed by war. We haven't had to rebuild, but there does come a time when an advanced economy must go through reconstruction. That's about where we are." □



To order reprints of this article, see page 41.

## The Irony of Exporting Scrap

"It is ironic that the United States, the world's largest scrap iron exporter, would allow a domestic shortage to develop even as exports increased," says Thomas C. Graham, president of Jones & Laughlin Steel Corp. in Pittsburgh.

Exports in 1978 were 46 percent higher than in 1977. Much of the increase can be traced to Japan, which tripled its import of American scrap last year. Exports rose by about 100 tons a quarter during 1978.

As scrap exports increased, so did U.S. scrap prices, compounding steelmakers' woes. Currently, the price for the most common grade used by the industry is about 41 percent higher than it was in the third quarter of 1978.

Lukens Steel Co. estimates that each \$10 per ton rise in the cost of scrap boosts its steelmaking prices by \$12.50 a ton.

As a major exporter of scrap, the United States is unique among the

industrialized nations of the world. Japan, for instance, exports almost none, and the European Coal and Steel Community exports only a small portion.

Britain recently clamped down even further on its exports; its chief recipient was Spain. "You may not be surprised to learn that our scrap exports to Spain have increased dramatically over the past couple of months," says a source at the American Iron and Steel Institute.

Given the national focus on energy problems, the export of scrap is puzzling for another reason: Every ton contains 17 million BTUs of energy. The 2,894 tons of scrap that were exported in the fourth quarter of 1978 were equivalent to giving away 8.4 million barrels of oil.

The steel industry petitioned the Commerce Department to impose export controls, as outlined under the Export Administration Act of 1969, but was unsuccessful.

The act states that it is the policy of the United States "... to use export controls ... to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of foreign demand.

But the Commerce Department wasn't about to jump to any conclusions. Says a spokesman: "If the level of exports during the fourth quarter of 1978 had represented a sustained trend, then the steel industry would have had a valid argument. To reach our decision, we looked at foreign purchase intentions, domestic scrap supplies, and domestic demand.

"We were extremely reluctant to do anything that could be interpreted as interference with free and unrestricted trade," the spokesman added.

Replies Paul B. Akin, president of the Laclede Steel Co. in St. Louis: "The United States is the only country in the world dumb enough to let its scrap go."



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# Beware of Congress Bearing Illinois Brick

**T**HE AMERICAN PUBLIC is in danger again, this time from a Trojan horse running under the colors of Illinois Brick. This is the popular name given to legislation now before Congress that would promote consumer class-action suits.

Potential big winners in these suits would be clientless lawyers who took it upon themselves to represent people who never sought their services.

Potential big losers would be all consumers and business because of the legislation's multi-billion-dollar impact on inflation.

Equally important, the various bills are the seeds of destruction for a private antitrust system that has effectively deterred the unscrupulous over the years.

In enacting the Sherman Antitrust Act of 1890, Congress recognized that the government didn't have the resources to prosecute every alleged antitrust violator. So the act authorized suits by private persons.

To encourage private enforcement, Congress also allowed injured parties to collect three times their proven loss. As a result, the private suit has the same significance as governmental action in enforcing antitrust laws.

But this proven system is in danger today. The Supreme Court, starting with the *Hanover Shoe* case in 1968 and culminating in the *Illinois Brick* decision in 1977, has developed the direct purchaser rule, which means that only the person or company that bought the goods directly from the supplier can sue that supplier for antitrust violations.

In the *Illinois Brick* case the High Court

ruled that, to assure effective, efficient, and fair private antitrust enforcement, only the direct purchaser from a violator should be allowed to sue.

This decision spawned the legislation now championed by Sen. Edward M. Kennedy (D.-Mass.) and Rep. Peter W. Rodino, Jr., (D.-N.J.). These bills would allow everyone in the distribution chain to sue, including the ultimate consumer, in class actions. The congressmen argue that direct purchasers may be reluctant to sue or may pass along the overcharge to consumers.

That rationale is heavily outweighed by the problems the legislation would create. For example, calculating, tracing, and dividing court-awarded damages would be a nightmare, further burdening the already overloaded courts.

Individual consumers would get little compensation and would lose in the long run because direct purchasers would have less incentive to sue violators. The real beneficiary would be the clientless lawyer who has a proprietary or entrepreneurial interest in the outcome.

The *Illinois Brick* legislation would, despite good intentions, destroy a workable system of deterrence that benefits the consumer as well as business. While the direct purchaser rule may not be ideal—few things in life are—it is the most practical application of private antitrust litigation.

Giving a free rein to class-action lawyers to induce businesses to settle out of court is not the answer to curbing antitrust violations.

The public should beware of this congressional Trojan horse bearing unwanted gifts.

*Nation's Business* is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.



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